NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

CIS

Congressional Information Service, Inc.
Washington, D.C.

S. Hrg. 100-319

OVERSIGHT ON THE SMALL BUSINESS ADMINISTRATION'S SECTION 8(a) PROGRAM AND POSSIBLE LEGISLATIVE REFORM PROPOSALS

HEARING

BEFORE THE

SUBCOMMITTEE ON URBAN AND MINORITY-OWNED
BUSINESS DEVELOPMENT

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

OVERSIGHT ON THE SMALL BUSINESS ADMINISTRATION'S SECTION 8(a)
PROGRAM AND POSSIBLE LEGISLATIVE REFORM PROPOSALS

ROXBURY, MA—SEPTEMBER 2, 1987

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE
78-844 WASHINGTON : 1987

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

5721-5

COMMITTEE ON SMALL BUSINESS

DALE BUMPERS, Arkansas, *Chairman*

SAM NUNN, Georgia	LOWELL WEICKER, Jr., Connecticut
JAMES R. SASSER, Tennessee	RUDY BOSCHWITZ, Minnesota
MAX BAUCUS, Montana	WARREN RUDMAN, New Hampshire
CARL LEVIN, Michigan	ALFONSE M. D'AMATO, New York
ALAN J. DIXON, Illinois	ROBERT W. KASTEN, Jr., Wisconsin
DAVID L. BOREN, Oklahoma	LARRY PRESSLER, South Dakota
TOM HARKIN, Iowa	MALCOLM WALLOP, Wyoming
JOHN F. KERRY, Massachusetts	CHRISTOPHER S. BOND, Missouri
BARBARA A. MIKULSKI, Maryland	DAVID K. KARNES, Nebraska

JOHN W. BALL III, *Staff Director*
JAMES C. BRENNER, *Legislative Assistant*
ROBERT J. DOTCHIN, *Minority Staff Director*
ROBERT M. WILSON, *Minority Chief Counsel*

SUBCOMMITTEE ON URBAN AND MINORITY-OWNED BUSINESS DEVELOPMENT

JOHN F. KERRY, Massachusetts, *Chairman*

BARBARA A. MIKULSKI, Maryland	CHRISTOPHER S. BOND, Missouri

CONTENTS

Page

Statement of Senator:

Kerry, Hon. John F., a U.S. Senator from the State of Massachusetts 2

Statement of:

Mavroules, Hon. Nicholas, a U.S. Representative from the State of Massachusetts 4

Statement of:

Cruz, John B., III, president, John B. Cruz Construction Co., Inc., Roxbury, MA 49

Daniels, Dr. Alfred C.W., president, H.H. Aerospace Design Co., Bedford, MA 53

Dennis, Daniel, Daniel Dennis & Co., Boston, MA 24

Edison, Dr. Kenneth M., director, Minority Business Training Center, Roxbury Community College, Roxbury, MA 82

Foster, Joyce, director, State Office of Minority and Women Business Assistance, Roxbury Community College, Roxbury, MA 90

Harris, Joseph E., manager, Minority Business Development, Polaroid Corp., Waltham, MA 72

Homer, Ronald, Boston Bank of Commerce, Boston, MA 25

Moffitt, John J., Associate Deputy Administrator for Management & Administration, U.S. Small Business Administration 12

Perez, Jose, assistant secretary, Executive Office of Commerce and Development, Boston, MA 26

Santiago, Esmeralda, president, CANTOMEDIA Corp., Hingham, MA 31

Wolfman, Brunetta, president, Roxbury Community College, Roxbury, MA 1

Womack, John, president, John's Janitorial Services, Inc., Peabody, MA 28

Woo, Davis, president, Chinese Consolidated Benevolent Association of New England, Boston, MA 111

HEARING DATE

September 2, 1987:

Morning session 1

OVERSIGHT ON THE SMALL BUSINESS ADMINISTRATION'S SECTION 8(a) PROGRAM AND POSSIBLE LEGISLATIVE REFORM PROPOSALS

WEDNESDAY, SEPTEMBER 2, 1987

U.S. Senate, Subcommittee on Urban and Minority-Owned Business Development, Committee on Small Business,

Roxbury, MA.

The Subcommittee met at 9:10 a.m. in the Kennedy Conference Center at Roxbury Community College, Hon. John F. Kerry, Chairman, Subcommittee on Urban and Minority-Owned Business of the Committee on Small Business, presiding.

STATEMENT OF BRUNETTA WOLFMAN, PRESIDENT, ROXBURY COMMUNITY COLLEGE, ROXBURY, MA

Ms. Wolfman. Good morning Senator Kerry and friends. I'm very happy to welcome you to Roxbury Community College. I'm Brunetta Wolfman, president of the College.

We are delighted to have this hearing here. Senator Kerry comes to the college quite often, and I think it's a measure of his concern for Boston and for the people who live in the inner city. I think it's appropriate that the hearing is here because we serve a diverse inner city population in diverse ways, ranging from literacy programs to GED preparation, to occupational training for displaced Chinese garment workers to displaced Sears workers to our minority business training and resource center and traditional academic transfer programs.

We have ESL programs because, as you know, there is an increasing number of people in Boston who need training in the English language. We are also prepared to work with you to design customized training programs for your staff. So that's a plug. I hope you will think about us and talk to us about what we can do for you. We are committed to opportunity and so this hearing is a part of what we do. Our middle name is community, and we are committed to the community and to finding ways to provide opportunity. We support what Senator Kerry is doing, and we will do everything that we can to help you and the Senator to retain and reform 8(a) because in 1987 it is still needed and it looks as if in the foreseeable future, the program will still serve a purpose.

So, I welcome you and thank you for coming and wish you well in your deliberations this morning.

Senator **Kerry**. Thank you very, very much for your welcome as well as for the tremendous assistance which Richard Williams and others have given us in helping to arrange to be here today. And I think everybody here knows that your leadership here has been just tremendous. And it's a pleasure to come here, and I hope to come back many more times. But we're delighted to have this hearing here today on what I consider to be a very important matter, and we appreciate the terrific setting that you've provided us. Thank you very, very, very much.

I understand—I know you have to run away, but thanks for joining us.

Ms. **Wolfman**. We're starting college.

Senator Kerry. I know you are. Just an incidental thing that happens here.

Ms. **Wolfman**. Thank you.

STATEMENT OF HON. JOHN F. KERRY, A U.S. SENATOR FROM THE STATE OF MASSACHUSETTS

Senator **Kerry**. Thank you very much.

Ladies and gentlemen, thank you. The hearing is formally convened. I would like to express my appreciation to my Chairman, Senator Bumpers, and also to Senator Weicker for their having granted us the opportunity to be able to have this field hearing, which requires their formal approval. And I also want to thank the members of their staff who are working diligently to reform this program—the 8(a) Program—and to pull together legislation which will permit us to do so. And they are here with us today, and I am appreciative of their participation in the Senate Committee's cooperation in this matter.

We are going to be examining, today, the problem of the 8(a) Program which is known to many. But for those who aren't that familiar with it or haven't participated in it, the 8(a) program was signed into law in 1967 by President Lyndon Johnson and since then has existed as the principal means of permitting the SBA to contract for the provision of goods and services through the Federal procurement process and to contract with private companies for the provision of those services. Currently, we have seen a tremendous diminishment in the ability of this program to be able to do the administrative things it needs to do to be able to make sure that it is more than just a contractual process and also a diminishment in the amounts of money that is, in fact, being disbursed. Even today, as we sit here, in this the most prosperous industrial State in the United States of America, we see a level of unemployment in the minority community that is, it's perennially double the level of unemployment elsewhere. And, unfortunately, a level that is unacceptable when you measure the success story and the amount of wealth that is being shared and transferred in other sectors of our society.

During the past several years, in fiscal year 1984 to 1986, the volume of 8(a) contracts in the Boston region office of the SBA has dropped approximately 40 percent. This, at a time when Government spending, personal income, employment and new businesses, new business formations, are showing a sharp increase here in Massachusetts.

Well, this troubles me. And it ought to trouble everybody here, and it ought to trouble all people in the State who have something to say about this. Because we have to ask why it is, in a region that is so successful at a time of such increases, in these other areas; why is it that we aren't as successful in promoting entrepreneurship in economic innovation among all of our citizens.

Let me say at the outset that major structural reform by Congress of the 8(a) Program is absolutely imperative. As Chairman of the Small Business Subcommittee on Urban and Minority-Owned Business Development, I'm prepared to work extremely hard to try and accomplish that, in a way that doesn't see us throw the baby out with the bathwater. It is essential that while there have been problems and there have been abuses, that we don't turn our backs on the most important single entity that we have for the distribution of large amounts of money to assist in development. It shouldn't be our only tool, and I don't want it to be. But it's there and it can work, and it's been proven that it can work. And we have also proven, in the way that we manage other programs, whether it's industrial development fund programs or UDAG programs, but we know how to make formulas. We know how to administer programs, and we do know how to diminish the politics. We know how to maximize training and other things, and there is no excuse for our not being able to transfer that kind of expertise from more broadly disseminated programs to this kind of program. And I think we simply have to put our task and efforts to it.

In the House I'm proud to say that two Massachusetts Congressmen, Congressman Nick Mavroules and Congressman Silvio Conte have submitted bills to help deal with the 8(a) Program. They are deeply concerned about it, and I'm pleased to submit with a unanimous consent the statement of Nick Mavroules, who wanted to share comments with us today and couldn't be here, but he is deeply concerned about this and his comments will become a part of the record here.

[The prepared statement of Congressman Mavroules follows:]

MAJORITY MEMBERS

NICHOLAS MAVROULES, MASSACHUSETTS
CHAIRMAN

CHARLES A. HAYES, ILLINOIS
JOHN CONYERS, JR., MICHIGAN
KWEISI MFUME, MARYLAND
FLOYD H. FLAKE, NEW YORK
DENNIS E. ECKART, OHIO
GUS SAVAGE, ILLINOIS
ESTEBAN EDWARD TORRES, CALIFORNIA
H. MARTIN LANCASTER, NORTH CAROLINA

100th Congress
United States House of Representatives
Committee on Small Business
Subcommittee on Procurement, Innovation, and
Minority Enterprise Development
B-363 Rayburn House Office Building
Washington, DC 20515

MINORITY MEMBERS

SILVIO O. CONTE, MASSACHUSETTS
JOHN J. RHODES III, ARIZONA
DEAN A. GALLO, NEW JERSEY
JOEL HEFLEY, COLORADO
FREDERICK S. UPTON, MICHIGAN
ELTON GALLEGLY, CALIFORNIA

CATHLEEN GARMAN
SUBCOMMITTEE STAFF DIRECTOR
202-225-8944

WILLIAM J. ANGELO
MINORITY SUBCOMMITTEE
PROFESSIONAL STAFF MEMBER
202-225-3420

STATEMENT BY CONGRESSMAN NICHOLAS MAVROULES
SEPTEMBER 2, 1987 HEARING 8(A) REFORM
BOSTON, MASSACHUSETTS

I WANT TO THANK MY GOOD FRIEND, SENATOR JOHN KERRY, FOR THIS OPPORTUNITY TO PRESENT A STATEMENT TODAY ON THE SMALL BUSINESS ADMINISTRATION'S CAPITAL OWNERSHIP DEVELOPMENT PROGRAM, COMMONLY CALLED THE 8(A) PROGRAM.

I AM SURE WE ARE ALL FAMILIAR WITH THIS IMPORTANT PROGRAM. ORIGINALLY ESTABLISHED BY P.L. 95-507, THE PURPOSE OF THE CAPITAL OWNERSHIP DEVELOPMENT PROGRAM IS TO PROMOTE THE COMPETITIVE VIABILITY OF FIRMS OWNED AND CONTROLLED BY SOCIALLY AND ECONOMICALLY DISADVANTAGED INDIVIDUALS. THE SECTION 8(A) AUTHORITY ALLOWS AGENCIES TO AWARD CONTRACTS THROUGH SBA TO SUCH FIRMS AND IS ONLY ONE OF MANY TOOLS AVAILABLE TO SBA TO PROMOTE THE COMPETITIVENESS OF DISADVANTAGED BUSINESS.

IN RECENT MONTHS THE PROGRAM HAS BEEN ROCKED BY SCANDAL STEMMING FROM THE WEDTECH INVESTIGATION. UNFORTUNATELY, THIS PROBLEM HAS CREATED MISPERCEPTIONS OF THE PROGRAM, AND HAS SPARKED EFFORTS TO ABOLISH IT.

THE SYSTEM MUST BE CHANGED AND MUST BE CHANGED NOW IF WE WANT TO SAVE THIS PROGRAM. THAT IS WHY WE ARE HAVING THIS HEARING TODAY.

AND THAT IS WHY EARLIER THIS YEAR, I INTRODUCED AN 8(A) REFORM PACKAGE, H.R. 1807, WHICH WAS - I AM PLEASED TO SAY - UNANIMOUSLY APPROVED BY MY SUBCOMMITTEE ON JULY 28.

THE BILL MY SUBCOMMITTEE APPROVED IN JULY IS DESIGNED TO MILITATE AGAINST THE CHANCES OF LETTING ANOTHER WEDTECH HAPPEN AGAIN. WE RECOGNIZE THE NEED TO RESTORE INTEGRITY TO A PROGRAM THAT IS STILL VERY MUCH NEEDED TO FOSTER THE DEVELOPMENT OF MINORITY SMALL BUSINESSES.

THE SUBCOMMITTEE PROPOSAL REDIRECTS THE 8(A) PROGRAM TO A BUSINESS DEVELOPMENT OBJECTIVE, AND IS AIMED AT REMOVING THE RANDOMNESS WITH WHICH SBA MAKES CERTIFICATION DECISIONS AND MATCHES CONTRACTS WITH 8(A) FIRMS. THE SBA HAS BEEN DIRECTED TO COME UP WITH OBJECTIVE CRITERIA IN THE AREAS OF FINANCIAL, MANAGEMENT AND MARKETING FUNCTIONS IN ORDER TO MEASURE THE PROGRESS OF 8(A) FIRMS.

WHETHER HEARINGS ARE HELD IN D.C. OR HERE IN BOSTON, IT IS IMPORTANT TO TO HEAR FROM THE MINORITY TRADE ORGANIZATIONS AND THE 8(A) FIRMS THEMSELVES. AS WE FOUND IN OUR SUBCOMMITTEE HEARINGS, THOSE MOST AFFECTED ARE IN THE BEST POSITION TO GIVE US A REALISTIC AND PRACTICAL EVALUATION OF WHAT IS NEEDED IN ANY REFORM INITIATIVE. IT IS TIME THAT THE LEGITIMATE NEEDS AND CONCERNS OF THE 8(A) POPULATION ARE PROPERLY HEARD AND SERVED.

I MUST WARN YOU, SENATOR, THAT THE SBA PROBABLY WILL BE AGAINST ANY BILL YOU PROPOSE JUST AS THEY WERE AGAINST THE REFORM PACKAGE WE CONSIDERED. THE SBA FRANKLY DOES NOT WANT ANY BILL, CLAIMING THEY CAN RESOLVE ANY PROBLEMS ADMINISTRATIVELY. BUT I WILL REITERATE WHAT I SAID IN MY OWN HEARINGS, IF SBA HAD BEEN ADMINISTERING THE PROGRAM PROPERLY FROM THE BEGINNING, WE WOULDN'T BE HERE TODAY TRYING TO STRAIGHTEN THINGS OUT.

ALSO, I WANT TO COMMEND YOU AND YOUR SENATE COLLEAGUES FOR THE COMPREHENSIVE SURVEY THAT WAS CONDUCTED ON GRADUATES OF THE 8(A) PROGRAM. IT APPEARS THAT WE HAVE ARRIVED AT MANY OF THE SAME CONCLUSIONS: THE NEED FOR MORE CONCENTRATED MANAGEMENT, TECHNICAL AND CONTRACT ASSISTANCE; PAYING MORE ATTENTION TO EACH FIRM'S DEVELOPMENT; RETRAINING SBA EMPLOYEES; REMOVING THE POLITICAL AND PERSONNEL BIASES IN ADMINISTERING THE PROGRAM; PREVENTING FIRMS FROM BECOMING SOLELY DEPENDENT ON 8(A) CONTRACTS; AND ENFORCING STRICTER MEASURES TO KEEP "FRONT COMPANIES" OUT OF THE PROGRAM.

ALTHOUGH THE ORIGINAL H.R. 1807 OUTLINED A THREE PHASED PROGRAM, WHICH ALLOWED FOR A MAXIMUM OF 12 YEARS OF ACTUAL 8(A) CONTRACT ASSISTANCE, THERE WAS LITTLE SUPPORT FOR SUCH AN EXTENDED TIME PERIOD. WE WOULD, HOWEVER, REPEAL THE CURRENT FIXED PROGRAM PARTICIPATION TERM, AND EXTEND THE PROGRAM OUT TO 9 YEARS.

IN EACH OF THE THREE PHASES, WE HAVE PROVIDED DEVELOPMENTAL ASSISTANCE, IN ADDITION TO 8(A) CONTRACTS, THAT IS AIMED AT PROVIDING THE FIRM WITH WHAT IT NEEDS TO BECOME COMPETITIVE IN ITS INDUSTRY.

FURTHERMORE, EVERYONE INVOLVED WITH THE 8(A) PROGRAM HAS RECOGNIZED THAT IN ORDER TO ASSIST MINORITY FIRMS TO BECOME COMPETITIVE WE MUST INTRODUCE COMPETITION INTO THE 8(A) PROGRAM. THE QUESTION HAS BEEN HOW MUCH COMPETITION AND AT WHAT LEVEL. FOR THAT REASON, WE WOULD ALLOW SOME COMPETITION IN THE FIRST AND SECOND STAGES; 15% AND 40% RESPECTIVELY. IN ADDITION, IN THE THIRD STAGE ALL 8(A) CONTRACTS WOULD HAVE TO BE COMPETED.

BECAUSE OF CONCERN THAT, WITH THE FIVE PERCENT DEPARTMENT OF DEFENSE (DoD) MINORITY GOAL PROGRAM, THE DoD WOULD MERELY TAKE FROM ONE POT TO SATISFY THE REQUIREMENTS OF ANOTHER, A PROVISION WAS ADDED TO ENSURE AGAINST REDUCTIONS IN THE NUMBER OR DOLLAR VALUE OF DoD SMALL BUSINESS SET-ASIDES AND 8(A) CONTRACTS WHEN IMPLEMENTING THE SMALL AND DISADVANTAGED BUSINESS GOAL PROGRAM.

ALSO, PROCUREMENT CENTER REPRESENTATIVES WOULD BE REQUIRED TO MONITOR COMPLIANCE OF THIS PROVISION, AND ARE TO WORK TOWARDS INCREASING THE PERCENTAGES AND DOLLAR VALUES OF CONTRACTS AVAILABLE FOR MINORITY SET-ASIDES -- AND INDEED FOR ALL SMALL BUSINESS SET-ASIDES.

RESPONDING TO COMPLAINTS THAT 8(A) CERTIFICATION HAS OFTEN TAKEN UP TO TWO YEARS, THE BILL SETS A MAXIMUM 90 DAY LIMITATION ON PROCESSING 8(A) APPLICATIONS; AND THE SBA IS REQUIRED TO NOTIFY THE FIRM, IN WRITING, WHEN THE 90-DAY PERIOD STARTS TO RUN. THE APPLICANT ALSO HAS THE RIGHT TO OBTAIN A LIST FROM SBA ON WHAT IS MISSING FROM HIS OR HER APPLICATION WITHIN 3 DAYS AFTER MAKING THIS REQUEST.

CONCERN HAS BEEN EXPRESSED, TOO, THAT THE CURRENT PENALTY FOR "FRONT COMPANIES" IS NOT SUFFICIENTLY HIGH ENOUGH TO BE AN EFFECTIVE DETERRENT. THEREFORE, THE CRIMINAL PENALTY FOR SUCH MISREPRESENTATION HAS BEEN INCREASED TO $500,000 AND A MAXIMUM PRISON TERM OF 10 YEARS. ALL OF US FELT EXTREMELY STRONG ABOUT THIS -- STORIES OF "FRONT COMPANIES" DO NOTHING MORE THAN FUEL THE FIRES OF OPPOSITION TO THE 8(A) PROGRAM.

FINALLY, THE BILL INCLUDES A REPORTING PROVISION, WHICH MANDATES THAT THE ADMINISTRATOR DEVELOP AND IMPLEMENT A PROCESS FOR THE SYSTEMATIC COLLECTION OF DATA ON THE BENEFITS DERIVED BY THE ECONOMY AND BY SOCIALLY AND ECONOMICALLY DISADVANTAGED INDIVIDUALS AS A RESULT OF THE 8(A) PROGRAM.

UNFORTUNATELY, THIS WAS NEEDED BECAUSE CURRENTLY THE SBA DOES NOT MAINTAIN ANY DATA ON THE BENEFITS THAT ACCRUE TO THE ECONOMY AS A RESULT OF THE 8(A) PROGRAM OR ANY INFORMATION ON THE FIRMS THAT HAVE EXITED THE 8(A) PROGRAM. THIS AMENDMENT REQUIRES THE AGENCY TO DO BOTH AND TO ISSUE A YEARLY REPORT TO THE CONGRESS ON THESE MATTERS.

I MUST SAY THAT I WAS APPALLED BY THE STATISTICS THAT THE SBA DOES KEEP. YOU MAY BE AS SHOCKED AS WE WERE TO LEARN THAT THE SBA STATISTICS WE HAVE BEEN RELYING ON ARE **WRONG**.

THAT MEANS WE DON'T EVEN KNOW HOW MUCH MONEY GOES INTO THE 8(A) PROGRAM -- INDEED ROUGH ESTIMATES SHOW WE ARE 100 OR 200 MILLION SHORT OF THE $3.4 BILLION DOLLARS WE THOUGHT THERE WAS IN THE 8(A) PROGRAM. I FIND THIS TO BE TOTALLY UNACCEPTABLE.

FURTHERMORE, WE CANNOT EVEN JUDGE THE EFFECTIVENESS OR SUCCESS OF THE PROGRAM BECAUSE WE DON'T KNOW WHAT HAS HAPPENED TO THOSE FIRMS THAT HAVE GRADUATED. AS I AM SURE YOU FOUND OUT, SENATOR, LITTLE OR NO INFORMATION HAS BEEN KEPT ON GRADUATES -- SO WE DON'T KNOW WHAT THE PAYBACK IS TO THE ECONOMY. I CAN TELL YOU THAT MY GUT FEELING IS THAT THE 8(A) PROGRAM GIVES BACK MORE THAN WE, THE GOVERNMENT, PUT IN - IN TERMS OF JOBS FOR THE DISADVANTAGED, TAXES AND INVESTMENTS.

LET ME END BY THANKING YOU AGAIN FOR THIS OPPORTUNITY, AND I HOPE TOGETHER WE CAN FORGE STRONG 8(A) REFORM LEGISLATION.

(Additional material retained in Committee files.)

Senator KERRY. Furthermore, I have firm commitments that both Senator Bumpers, who has long been concerned with this and worked on it, and Senator Weicker, who, as former Chairman of the Committee has been concerned about it, both of whom have had deep involvement with the SBA itself, are going to continue and press for legislation and for a fix.

Now, let me make one thing clear, Wedtech is not the focus of this hearing. But there's no way to deny that Wedtech and other political abominations which we are increasingly becoming more aware of, have cast a very long shadow over the 8(a) Program.

Wedtech's owners and their cohorts have been hauled in front of courts, perhaps half a dozen grand juries on the east coast. An independent counsel has been appointed because of questions about Attorney General Meese's involvement in White House decisions concerning Wedtech.

Mr. McKay, the special prosecutor, has already brought indictments against former top White House staff members for violation of Federal ethics regarding influence-peddling. And the former SBA administrator of New York and a Member of Congress also face indictments from that State.

Wedtech's chairman and other officers face indictments, and the company is now in chapter 7 bankruptcy proceedings, owing everybody and employing nobody. It appears that for Wedtech, bribery was a way of life, and they were undoubtedly encouraged by the belief that the White House top political operatives spare no effort in pressuring both the SBA and the Army and Navy to award Wedtech with contracts.

I think in the course of testimony this morning, the spill-over effect of the Wedtech scandal will be articulated by witnesses, and it will become clear about the ways in which that has affected 8(a), and how, perhaps, we ought to be able to benefit, at this point, in structuring reforms.

We will also hear, this morning, about how people who are graduates of 8(a) have perceived that the program has lacked staff and other resources that SBA really needs in order to make a general commitment to it and to make it work. Esmeralda Santiago, for example, is going to tell us about how she was discouraged from applying for business development funds and told to go to a local bank. At the same time as she was left to fend for herself, White House influence was being used not only to cut SBA staff positions in Washington, but to insure that Wedtech received $3 million in contracts and 1 year of business development funds and that it also got a $1 million UDGD grant.

I think we ought to note, also, that Wedtech was a catastrophe for national defense because we spent $35 million on a contract for small engines, and we spent almost $135 million on contracts for pontoon barges; neither of which have been provided or delivered at this point in time.

Now, leave out Wedtech. There are still serious management questions about this program which we want to examine today. And despite repeated efforts by the Congress, by Senator Weicker and others, there is a perception by many people that the program is still too much of a simple flowthrough for contracts and not a business development oriented type of program.

One of the questions we'll be asking today and looking for in people's testimony is, how do we change that? Is there a way to improve that? Can we make it more business developmentally oriented?

In addition, I think it's clear that we know some of the directions for reform that we need to move in. We need to try to somehow structure it so it is less political. So there is less ability for influence to make the decisions. That is one of the things we will look for. We need to find a way that people who participate in the program don't sit there for 5 to 7 years with the program as their lifeline to economic vitality. And then, when suddenly they're finished with their eligibility for the program, they don't have true competitive ability or other capacity to be able to continue within the normal marketplace or real world, if you will.

Finally, I think we have to make sure that the SBA has the programmatic ability to be able to carry out its mission.

I think those three are clear, but again, we have to learn from you, exactly how that can or can't work.

Let me make one last thing clear before I introduce our first witness and our guest here. This is not a small program. This is not small change that we're talking about. This is not an insignificant thing that people ought to let pass by as one more governmental harassment or bureaucratic snafu that somehow shouldn't be cared about. We're talking about $4.4 billion total Federal procurement minority contracts, and we're talking about $3.1 million that has gone through the 8(a) Program.

Now, regrettably—and I mean this—regrettably, that $3.1 million and the $4.4 billion, represent only 2 percent, slightly over 2 percent of the total Federal procurement. And the $3.1 million that goes through the actual set-aside program, only represents slightly more than 1 percent of total Federal procurement. And I don't think there's anybody who ought to feel satisfied with the notion that with $183 billion pool of Federal procurement funds out there through DOD and others, that we can't do another job of making more money available.

Second, there are some 3,000 qualified, certified 8(a) companies. One hundred of those companies received almost 50 percent of the total funds certified through the 8(a) Program. Fifty percent to 100 companies. Fourteen hundred companies got about 45 percent additional and about 1,500 companies obviously, therefore, got nothing. So the question has to be asked, in addition, when you compare, say, a place like Massachusetts to a place like Philadelphia, there they have got an enormous number of contracts versus very few coming out of Massachusetts. I forget the precise number. I think it's 26 to 3 or something, in the last year. And that's an imbalance that just doesn't make sense.

So the question we also want to get at here today is how do we rectify that imbalance? How do we adjust this program so that more companies are sharing more of this wealth and more of this ability to be able to become partners in the economic process of this country. And I think that's a very important task.

I'm thrilled to be joined here on the podium today by participants in this program; participants in minority business; people who have cared about it, understand it. And I'm delighted, also, that we're going to have two panels of—three panels—one separate panel and two individual panels of three people each, of witnesses who really know what they are talking about in this.

And let me just introduce, very quickly, those who are up here with me. Dan Dennis is a founder managing partner of Daniel Dennis & Co., a regional certified public accounting firm. And they are also an 8(a) company. He has served as my White House Conference small business representative and has been a terrific aid to me in helping me understand some of these issues and become involved in them.

Ron Homer is the president and chief executive officer of the Boston Bank of Commerce, which is New England's only minority-owned bank and has been noted as one of the 10 best business success stories in New England. Under his chairmanship, the bank has tripled in size and was recognized in 1986 by Black Enterprise magazine as Bank of the Year. You've all met and know Dr. Brunetta Wolfman.

John Womack is president of John's Janitorial Services, Inc. which was founded in 1977. He's a graduate of the 8(a) Program. He's also president of the Black Corporate Presidents of New England, and he has served on the Governor's Commission of Minority Business Development and also has been very helpful to me.

Davis Woo is president of the Chinese Consolidated Benevolent Association and a retired engineer.

And Jose Perez is currently the assistant secretary of economic affairs for minority business and development here in this State. And this is his first position in the State—this is the first position in the State for that kind of minority development.

As you know, I think the Governor is working hard in his Development Commission.

So, gentlemen, I thank you all very, very much for being here with me.

Now, I would like to introduce our lead witness, who is Mr. John Moffitt, who will speak on behalf of the Administration. Mr. Moffitt has a great deal of experience in the Regional Administrator's Office here in Boston. He has recently become the SBA's Associate Administrator for Management in Washington. And then, subsequently, the commission will hear the additional testimony. Mr. Moffitt, thank you very much for being here with us.

STATEMENT OF JOHN J. MOFFITT, ASSOCIATE DEPUTY ADMINISTRATOR FOR MANAGEMENT & ADMINISTRATION, U.S. SMALL BUSINESS ADMINISTRATION

Mr. MOFFITT. Senator, thank you very much for inviting me. It's been a great pleasure to come back to Boston to talk about a program which I'm happy to say I've had some experience with over the years in various capacities.

In exploring ways to improve the 8(a) Program, I think it's important that we not be that mesmerized by the scandals in the program. While dealing with these abuses, we must realize that problems will arise in any sole-source system irrespective of the size of business, composition of its ownership, or the extent of the contract.

The SBA's 8(a) Program has been of significant assistance to America's minority small business men and business women. Senator, to quote the statistics you just used, 75 percent of all minority purchasing has come through the 8(a) Program.

This should not be forgotten amid the wealth of negative publicity. This program, or one like it, is much needed.

In examining the program, we must define what it is and what it is not. It is not a social welfare program. It is not an entitlement program. It is a business development program.

Unfortunately, the business development aspect has been sorely neglected over the years. Too often, supplying contracts has become the end in itself, rather than as the means to an end.

It's axiomatic that the lack of business expertise or contracts or capital is really only a symptom of a greater problem; the lack of business management expertise. Greater emphasis must be placed on genuine business development. The need to improve business education must be better addressed. Consolidation of MSB, COD, and MBDA within the SBA is an essential step in this direction.

While improving our business development delivery is critical, other areas must be addressed. Some form of competition must be introduced into the 8(a) Program. You've got to reflect the real world of Government procurement that every 8(a) firm must face at graduation.

The agency must attempt to provide a more equitable geographic distribution of national buy contracts. The SBA must also change its attitude to MSB/COD staffing. Too often, this program has been used as a dumping ground for nonperforming employees. I'm happy to say that this has not been the case here in region I. However, I think that in the central office in Washington and other areas, it has been, all too often.

You must also recognize that the portfolio is changing. Firms capable of performing increasingly sophisticated contracts are becoming a major part of our entire portfolio. This development requires better training of MSB personnel, so that they may be better able to identify contracting opportunities with the more high-tech oriented firms.

We must also become more proactive in locating and securing contracts from the various Federal agencies. We must provide better coordination between our MSB personnel and the SBA procurement division. Our agency commercial marketing representatives, known as CMRs, must be more active in introducing 8(a) firms to contracting opportunities with major Government contractors.

Processing time for program entry and paperwork must be reduced. The 1017 process has to be, I think, re-examined. Above all, a way must be found to extend the benefits to the MSB, COD, and 8(a) Programs to more minority firms in the United States. Certainly, only 3,000 firms out of a total of tens of thousands of potential firms is not a very good track record.

Some of these suggestions of mine are controversial and some are not. I think they all need to be examined as we work toward problematic achievement. I don't think there's anyone in Congress or in the portfolio or in SBA who has worked in this program, or dealt with it over the years who doesn't recognize that fundamental changes must be made in the program if it is to realize the potential that was thought to exist for it years ago.

Our new Administrator, Senator Jim Abner, is absolutely committed to working with Congress and working with the community to make sure these changes are needed. I have, Senator—in my prepared statement, which you have, dealt with some of the questions that you raised in your invitation letter. But I'll deal mainly with the issue of lack of contracting support.

We have seen in Region I, a reduction in contracts. Although, if you take a look at the average contract size in comparison with the New York region, Region II, you'll find that the average size contract per 8(a) firm is actually higher in the last fiscal year than it was been in New York. But if you examine the Philadelphia region, Region III, you'll notice there is a tremendous disparity between New England and the Philadelphia region.

Now, why is that? Partially, the amount of contracts is a result of the character of the portfolio. Back in 1982, a study was done showing that 40 companies—not 40 percent—but 40 companies out of all the companies that had been in the 8(a) Program, had dominated more than 50 percent of all the contract dollars. The catch to that, was that many of those companies were oil firms. So that you have bloated oil numbers that didn't really compare very well with construction firms and other firms.

In some cases, when you're just looking at a contract total dollar amount, you're really dealing with apples and oranges. The profit margin on oil contracts has traditionally been very low, but they swell the contract base.

The character of the portfolio is one difference. The most important difference, I think, is the concentration of Federal procuring opportunities in the Washington DC area. The so-called "Beltway Bandits" 8(a) firms have dominated the large national buy contracts which are coming to be increasingly a larger and larger part of the portfolio. Also, in New England, we have only one large procuring installation, and that's Hanscom Field in Bedford. We have Newport, but it's important to recognize that most of those contracts out of Newport are let out of NAFAL in Philadelphia. So that this region is really in a very difficult position in terms of its geography, as far as the obtaining of contracts.

That is my statement this morning.

[The prepared statement of Mr. Moffitt follows:]

SBA U.S. Small Business Administration Washington, DC 20416

STATEMENT OF
JOHN J. MOFFITT
ASSOCIATE DEPUTY ADMINISTRATOR
FOR MANAGEMENT & ADMINISTRATION

BEFORE THE

SUBCOMMITTEE ON URBAN AND MINORITY BUSINESS DEVELOPMENT
COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

SEPTEMBER 2, 1987

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I APPRECIATE THE OPPORTUNITY TO COME BEFORE THIS SUBCOMMITTEE TODAY TO DISCUSS THE SMALL BUSINESS ADMINISTRATION'S SECTION 8(a) PROGRAM. I WILL ATTEMPT TO PROVIDE YOU WITH AN OVERVIEW OF WHAT IS CURRENTLY TAKING PLACE IN THE 8(a) PROGRAM TODAY. MY TESTIMONY WILL ADDRESS THOSE QUESTIONS WHICH WERE ADDRESSED TO ME IN YOUR LETTER OF INVITATION.

WHILE THE TOTAL AMOUNT OF 8(a) CONTRACT DOLLARS AWARDED IN REGION I WOULD APPEAR TO BE SMALL IN COMPARISON WITH OTHER REGIONS, IT SHALL BE NOTED THAT IN RELATION TO THE SIZE OF OUR PORTFOLIO 8(a) SUPPORT IS NOT APPRECIABLY LOWER THAN THAT OF MOST OTHER REGIONS.

A COMPARISON WITH SBA's TWO OTHER NORTHEAST REGIONS, NEW YORK (REGION II) AND PHILADELPHIA (REGION III) FOR FY '85 AND '86 IS, I THINK, SIGNIFICANT.

	FY 85 # OF FIRMS	TOTAL CONTRACT DOLLARS	AVERAGE CONTRACT PER FIRM
REGION 1	102	109,775,300	1,076,225
REGION 2	276	277,087,748	1,003,941
REGION 3	735	874,320,382	1,198,552

	FY 86 # OF FIRMS	TOTAL CONTRACT DOLLARS	AVERAGE CONTRACT PER FIRM
REGION 1	97	96,571,200	995,577
REGION 2	270	246,259,828	912,073
REGION 3	793	1,393,497,090	1,757,247

PROPORTIONATELY, THE REGION I 8(a) PORTFOLIO ACTUALLY RECEIVED SLIGHTLY BETTER SUPPORT THAN THAT OF REGION II (NEW YORK).

IN FY '85, REGION I SUPPORT WAS ONLY SLIGHTLY LESS THAN THAT OF PHILADELPHIA REGION, WHICH IS UNUSUAL SINCE REGION III INCLUDES THE WASHINGTON, D.C., BELTWAY AREA.

THE FY '86 FIGURES, WHICH SHOW A MORE SUBSTANTIAL DIFFERENCE IN THE AVERAGE CONTRACT DOLLAR SUPPORT, ARE MORE TYPICAL.

IN FY '86 ALMOST 50% OF ALL 8(a) CONTRACT DOLLARS AWARDED IN THE UNITED STATES WERE LOCATED IN REGION III.

THIS DISPARITY IS EXPLAINABLE BY THE CLOSE PROXIMITY OF THE 8(a) BELTWAY FIRMS TO THE FEDERAL PROCURING AGENCIES WHICH AWARDED THE LARGE NATIONAL BUY CONTRACTS. SINCE THE VAST MAJORITY OF 8(a) CONTRACTS WHICH ARE AWARDED OCCUR AS A RESULT OF "SELF MARKETING," THOSE FIRMS IN THE D.C. AREA, THE SO-CALLED "BELTWAY BANDITS," HAVE SIGNIFICANT STRATEGIC ADVANTAGE. HENCE REGION III's DISPROPORTIONATE SHARE OF THE 8(a) MARKET.

IF YOU COMPARE REGION I WITH A REGION WHOSE 8(a) PORTFOLIO AND MINORITY SMALL BUSINESS POPULATION IS COMPARABLE TO NEW ENGLAND, YOU WILL NOTE THAT THE 8(a) CONTRACT SUPPORT IS ROUGHLY EQUAL.

	REGION I	REGION VII	REGION X
FY '84	163,715,606	90,911,624	98,935,236
FY '85	110,542,055	102,362,098	114,314,709
FY '86	93,845,101	90,961,588	130,531,311

LASTLY, WE ARE PROUD THAT IN FY '86 80% OF ALL FIRMS IN THE REGION I PORTFOLIO RECEIVED AT LEAST ONE 8(a) CONTRACT. THIS COMPARES FAVORABLY WITH THE NATIONAL 8(a) AVERAGE OF LESS THAN 50%.

THE DOMINANCE OF THE BELTWAY FIRMS IN THE NATIONAL BUY ARENA IS ONE OF THE MAJOR PROBLEMS FACING REGION I 8(a) FIRMS AS THEY ATTEMPT TO OBTAIN CONTRACT SUPPORT. MOST NATIONAL BUY CONTRACTS ARE GEARED TO PROFESSIONAL SERVICE FIRMS. LOCAL BUYS GENERALLY FALL INTO THE CATEGORY OF JANITORIAL, MESS ATTENDANT, ROAD AND BUILDING CONTRUCTION SERVICE.

IN ADDITION, NEW ENGLAND HAS ONLY ONE MAJOR FEDERAL PROCUREMENT INSTALLATION, THE ELECTRONIC SYSTEMS DIVISION AT HANSCOMB IN BEDFORD, MASSACHUSETTE. TYPICALLY, MUCH OF WHAT IS PROCURRED BY HANSCOMB IS BEYOND THE CAPACITY OF MOST SMALL MINORITY FIRMS.

OUR SYSTEMS BREAKOUT TEAMS LOCATED AT THIS INSTALLATION IS ATTEMPTING TO ADDRESS THIS PROBLEM AND WE BELIEVE THAT THE AGGRESSIVE POSTURE OF THIS GROUP WILL RESULT IN INCREASED OPPORTUNITIES FOR SMALL BUSINESS AWARDS IN THE FUTURE.

LASTLY, THE PROGRAM'S LESS THAN STERLING REPUTATION IS AN UNDENIABLE IMPEDIMENT TO GREATER CONTRACTING OPPORTUNITY.

THE PROCESS IN REGION I FOR ATTEMPTING TO IDENTIFY CONTRACT OPPORTUNITIES CONSIST OF WORKING WITH THE PROCUREMENT CENTER

REPRESENTATIVES (PCR's), SMALL AND DISADVANTAGED BUSINESS UTILIZATION OFFICERS (SADBU's) AND CONTRACT PERSONNEL AT VARIOUS PROCURING AGENCIES TO MAKE THEM AWARE OF THE TYPE OF PRODUCTS/SERVICE FIRMS OFFER.

ADDITIONALLY, REGION I URGES 8(a) FIRMS TO DO SELF MARKETING WITH AGENCIES LOCALLY AND NATIONALLY. FIRMS ARE INSTRUCTED TO NOTIFY THE MSB/COD OFFICE IF AND WHEN THEY IDENTIFY A CONTRACT OPPORTUNITY SO THAT THE MSB/COD CONTRACTING OFFICER CAN SEND A LETTER REQUESTING THAT THE CONTRACT BE SET-ASIDE FOR THE FIRM FINDING THE CONTRACT.

IT HAS BEEN MY EXPERIENCE THAT MOST FEDERAL PROCURING AGENCIES IN NEW ENGLAND HAVE BEEN GENERALLY RESPONSIVE TO THE 8(a) PROGRAM. HOWEVER, AS PREVIOUSLY MENTIONED, SOME CONTRACTING OFFICIALS HAVE A NEGATIVE ATTITUDE TOWARD THE PROGRAM. THIS IS PARTICULARLY TRUE OF THOSE WHO HAVE NEVER DEVELOPED A GOOD WORKING RELATIONSHIP WITH AN 8(a) FIRM.

THE MSB/COD PROGRAMS, INCLUDING 8(a), NEEDS SUBSTANTIAL IMPROVEMENT IF IT IS TO REALIZE THE GOALS AND OBJECTIVES ORIGINALLY ESTABLISHED FOR IT.

A GREATER EMPHASIS MUST BE PLACED ON GENUINE BUSINESS DEVELOPMENT. THE NEED FOR IMPROVED BUSINESS EDUCATION MUST BE BETTER ADDRESSED. THE CONSOLIDATION OF MSB/COD AND MBDA WITHIN SBA IS AN ESSENTIAL STEP IN THIS DIRECTION.

SOME FORM OF COMPETITION MUST ALSO BE INTRODUCED INTO 8(a) TO BETTER REFLECT THE "REAL WORLD" OF FEDERAL PROCUREMENT, WHICH EVERY 8(a) FIRM MUST FACE AFTER GRADUATION.

THE AGENCY MUST ATTEMPT TO PROVIDE A MORE EQUITABLE GEOGRAPHIC DISTRIBUTION OF NATIONAL BUY CONTRACTS.

SBA MUST ALSO CHANGE ITS ATTITUDE TO MSB/COD STAFFING. TOO OFTEN THIS PROGRAM HAS BEEN USED AS A DUMPING GROUND FOR NON-PERFORMING EMPLOYEES.

IT MUST ALSO BE RECOGNIZED THAT THE PORTFOLIO IS CHANGING. FIRMS CAPABLE OF PERFORMING INCREASINGLY SOPHISTICATED CONTRACTS ARE BECOMING A MAJOR PART OF THE ENTIRE PORTFOLIO. THIS DEVELOPMENT REQUIRES BETTER TRAINING OF MSB PERSONNEL SO THAT THEY MAY BE BETTER ABLE TO IDENTIFY CONTRACTING OPPORTUNITIES FOR HI-TECH FIRMS.

SBA MUST ALSO BECOME PRO-ACTIVE IN LOCATING AND SECURING CONTRACTS FROM THE VARIOUS PROCURING AGENCIES.

BETTER COORDINATION MUST BE PROVIDED BETWEEN MSB PERSONNEL IN SBA's PROCUREMENT DIVISION. AGENCY COMMERCIAL MARKETING REPRESENTATIVES (C.M.R's) MUST BE MORE ACTIVE IN INTRODUCING 8(a) FIRMS TO CONTRACTING OPPORTUNITIES WITH THE MAJOR GOVERNMENT PRIME CONTRACTORS.

PROCESSING TIME FOR PROGRAM ENTRY AND PAPERWORK MUST BE REDUCED.

ABOVE ALL, A WAY MUST BE FOUND TO EXTEND THE BENEFITS OF THE MSB/COD PROGRAM TO MORE MINORITY FIRMS IN THE UNITED STATES.

UNDER OUR NEW ADMINISTRATOR, JIM ABDNOR, SBA IS COMMITTED TO MAKING THESE AND OTHER NEEDED CHANGES IN THIS PROGRAM.

WE WELCOME THE OPPORTUNITY TO WORK WITH YOU AND OTHER MEMBERS OF OUR SENATE AND HOUSE COMMITTEES TO FACILITATE THESE CHANGES AND TO PROVIDE MORE MEANINGFUL OPPORTUNITIES TO OUR NATION's DISADVANTAGED BUSINESS OWNERS.

MR. CHAIRMAN, THIS CONCLUDES MY PREPARED STATEMENT. I WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Senator **Kerry**. Thank you very much.

With respect to the developmental aspect, you've acknowledged in your comments now that we need to improve the developmental ability. Can you make specific recommendations as to how you do that? I mean, you've been dealing with the program, and I wonder if you can help us?

Mr. **Moffitt**. First, I think it's important to understand why that developed, why that happened; why this development was sort of shoved to one side.

Part of the reason, I think—or most of the reason—was that the pressure has always been on to provide the contracting opportunities both from Congress and from the constituency itself. Too often 8(a) contractors were not aware that they lacked this needed expertise until after they had graduated from the program and recognized that there was something that SBA could have provided and didn't provide.

Now, what do we do about that in the future? Some steps have been taken already. The Administrator has transferred one of our better employees to central office, Ms. Johnnie Albertson, to be the second deputy in the MSB, COD Program. Her entire responsibility had been in the Small Business Development Center Program across the United States. She will be—her major function will be the day-to-day program deputy. One of her major roles will be to help to use the SBDCs more for 8(a) contracts and minority firms.

That is an element, I think, that's been lacking. There's been very little interaction in the 8(a) Program. Second, we've just recently established the Office of Minority Small Business Outreach by which we hope to be able to involve major accounting firms and large business in providing some of those sophisticated business development services that the SBA is just not capable of doing.

Third, there needs to be an awareness on the part of the SBA that even though the 8(a) client may not be aware he needs these services, that those services need to become a regular part of participation in the program. As much a part of participation in the program as doing the business plan, so to speak.

I think those are three areas that we can focus on right now. Of course, there's still more.

Senator **Kerry**. How do you actually implement that when you look at the fact here in Boston, or when Region I went from 27 full-time employees in 1980 to 7 by 1987? And the central office went from 60 down to 33.

Mr. **Moffitt**. Well, I think if you take a look at the business development aspect of SBA as a whole, we are no longer hands-on counselors or hands-on trainers. Obviously, we neither have the numerical forces or practical sophistication to do that.

Senator **Kerry**. That's one of the great complaints in the program; that there isn't this hands-on training, and so forth. Who's going to provide it if you don't?

Mr. **Moffitt**. I think that we can make good use of 7(j) contractors to do that. I think we can make better use of MBDA. There has been, to my understanding, very little coordination between the SBA and MBDA. I think we can make better use of the SBDC Program, and I think we can make better use of other outside resources.

I think we must explore making training and counseling sessions mandatory as part of the 8(a) Program. Right now, that is not the case.

Senator KERRY. Well, coming back for a minute to the others, and I would like to pursue that.

Gentlemen, don't hesitate if you have something you want to add. Leap right in.

In Boston, while you point to the Newport/Hanscom problem, the fact is that the number of 8(a) firms doing business here has actually declined, rather than even stay steady or increased marginally, which is hard to understand. I mean, why would Boston actually lose $13 million and go down from 102 to 97?

Mr. MOFFITT. Well, I think right now, we're at 102. I think our numbers are fairly stable, although the contract dollars have dropped. I think, again, that is in part the—a reflection of the firms in the portfolio. We no longer have large oil contracts. Some of our most sophisticated companies having been with the program for many years have left, and the companies remaining have not yet reached that level of ability to perform large Government contracts some of the other firms have had.

I think you'll see those numbers go back up as you see the experience of those that are coming into the portfolio in say 1983 or 1984. I think you'll see those numbers come back up.

Senator KERRY. Will they go up on a relative basis, or are they all going to go up?

Mr. MOFFITT. I don't much know how to answer your question.

Senator KERRY. Well, I mean, is Philadelphia going to go up and Boston's going to stay the same?

Mr. MOFFITT. Well, I think, again, that's going to depend on the character of the Philadelphia portfolio. That's really impossible to answer without understanding your portfolio.

Senator KERRY. Well, I'm still troubled a little bit by this question of how—what specific measure—I mean, how would Congress—should Congress frame this? Or can it be framed outside of Congress? And how, what is the process that actually gets framed that deals with this double-headed problem of the developmental versus contractual. Is there going to be a new formula by which we're actually deciding how we hand out the contracts?

Mr. MOFFITT. Well, there have been many formulas that we've explored and Congress has explored. I'm not sure that determining a formula for handing out contracts is going to solve the business development problem, because whatever formula you use, if the agency's policies remain the same as far as business development is concerned, that's not going to solve anything. I think you have to deal with—contracts are a part of business development, but they are only a part of business development. That's the part that really hasn't been lacking. The part that's been lacking is the business education aspect of it, and I think we need to deal separately with that. I, myself, prefer that those education programs be mandatory for those firms entering the 8(a) Program. That, I think from a realistic standpoint, is the only way that you're going to begin to increase the education of the companies in the program.

As far as, how do you deal with the contract situation. Do you introduce competition? At what level do you introduce competition? Is it based on a dollar amount? Should you make it on their outside contracts? Should you base it on the number of years in the program? Those are all things that we're dealing with now and Congress is dealing with. Hopefully, in a couple of months, a bill will be marked up at the House Committee that the SBA can support. We're dealing—we're working with their staff as we're working with the Senate staff now to come up with a bill for the program and one we all can support.

Senator KERRY. We touched on the management counseling thing a moment ago. Senator Bumpers has repeatedly expressed concern about that process, and I wonder if you could tell us what procedures are used to select the firms that are going to provide the developmental services to 8(a) firms.

Mr. MOFFITT. You're talking about the 7(j) Program?

Senator KERRY. Consulting, yes.

Mr. MOFFITT. RFPs are sent out and firms will respond to that. In the case of the 7(j) contract, some as Mr. Dennis, are members of the 8(a) Program themselves, and a certain portion of the 7(j) funds in any given region, will be set aside to contract to 8(a) firms not competitively. Those proposals—the competitive aspect—those proposals are examined for technical capability by MSB personnel and are awarded out of the contracting shop in central office.

Senator KERRY. Is there any way to—how do you know those things are actually doing what they've been contracted to do and that they are doing it well?

Mr. MOFFITT. In this region on a 7(j) task order, what typically happens is this: An order, or task order, will be written. There will be an entrance interview with the 7(j) contractor and the client. The service, hopefully, will be provided and then at the end of the service being provided, there will be either an exit interview with both the 7(j) contractor and the 8(a) firm, or MSB personnel will contact the 8(a) firm to see if the service provided was satisfactory.

One thing I've noticed over the years is that there has been a substantial improvement in the quality of the 7(j) contractors in the program.

Mr. Dennis, Dr. Malloy, Jose Blout, and Mr. Hernandez, in Connecticut, they are a vast improvement over what was there before. It was not untypical in years gone by for the 8(a) or minority business client to call our office after having been visited by one of our 7(j) contractors and complain that the fellow needed more help than they did. I think those days, fortunately, are over—are behind us.

STATEMENT OF DANIEL DENNIS, DANIEL DENNIS & CO., BOSTON, MA

Mr. DENNIS. I wonder if I can ask you a question? What do you think your appropriation for the 7(j) contract will be? Is that going to be intact? Is it going to increase or decrease with the budget constraints the SBA has?

Mr. MOFFITT. Realistically, I don't—assuming that MBA will not be transferred this year, and I think that both the Senator and I will agree that that's not going to happen, although I think down the road we need to agree to some combination of the two—I don't see any significant change in funding of 7(j).

When I first came into the agency back in January of 1982, I thought, "What's the point?" This fiscal year 1987 is only the first year that the 7(j) Program has been handled in the same way 2 years running. It seemed that every year a configuration of how you do it, handle the contracts and the technical evaluations evolved. In my new duties down in Washington, while I don't examine the proposals for technical merit, I do deal with the actual contracting authorities who have the contract responsibility. And one of the first things I did coming in, was to say that we needed to have those contracts available at the start of the fiscal year. As you know, too often in the past, funding hasn't been ready for the 7(j) contracts until half the year is over. And, of course, there was an inability to spend the money that's there.

So I think that that's one thing we have improved and will continue to improve. I don't see that there's going to be any significant change in the program.

Mr. DENNIS. Assuming you thought through the idea of using 7(j) funding to help the graduated firms; one of the major problems with the grants is that this is for development of companies but they need help beyond that. And generally, the 7(j) Program has been used mostly for people in the portfolio or newer companies. So what are your thoughts to using some of 7(j) funds during the transitional process of graduated firms?

Mr. MOFFITT. Unfortunately, our transitional plans for graduated 8(a) firms, is in more theoretical than real. I think there is too often the agency has an attitude of well, he's been in the program for 10 or 12 years, and that's the end of it.

I'm still a bit embarrassed for the agency that the study that was done by the Senate Small Business Committee about what happened to the graduating firms, was not done by SBA as it should have been done.

Hopefully, as time goes along, we'll be able to focus more on those firms that continue to need help. If for no other reason, just to make a survey of how they are, in fact, doing so we know how the program is working and if, in fact, it is working.

Senator KERRY. One of the witnesses who is going to be coming up will say that in point of fact, a consultant assigned to her by the SBA was supposedly to assist her in a marketing effort, was actually competing for other contracts. Is there a policy as to conflict of interest in assignments?

Mr. MOFFITT. Competing for other contracts in her same—in her line of work?

Senator KERRY. Yes, competing with her firm on contracts.

Mr. MOFFITT. That's not a usual situation. I hadn't heard of that one before.

Senator KERRY. If you can stay around, you get to hear about it.

Mr. MOFFITT. No, there is no policy.

STATEMENT OF RONALD HOMER, BOSTON BANK OF COMMERCE, BOSTON, MA

Mr. HOMER. Senator, I would like to make a comment?

I've been in the banking business for almost 12 years and spent most of that time lending to small businesses and the bulk of those to minority small businesses. And I would just like to take issue with one comment from my limited—you know, it's not universal experience still, but in my experience, the problems that minority businesses have are primarily related to access to contracts and access to capital, access to the marketplace. And while business education is an important element of anyone going into business, I do not—I would hate to see a de-emphasis of program elements that provide access to the marketplace and access to the capital given Gramm-Rudman. Even if you—particularly, when you look at the New England region, we have business people who have graduated from the top schools in the country who still have problems obtaining adequate access to the marketplace. So I think the emphasis on business education and particularly working with 7(j) firms, as a banker, I have not found them to be particularly helpful in dealing with our customers. They are not usually long-term relationship, and customers generally do better gaining that experience themselves.

Mr. **Moffitt**. Well, Mr. Dennis may want to respond to the last part of your question, but I will say that there is going to be no de-emphasis on contracting in the SBA. What there needs to be is an emphasis, that has been totally lacking, in business development.

If you had a situation as we have in a firm in the Washington area whose graduating after $28 million in contracts in 14 years. But he admits that really, he doesn't know what to do about marketing. What was his next step? I mean, that's not as a result of lack of contracts. That's not as a result of lack of capital. That's the lack of business expertise. It was never provided by SBA. We never asked of him, "Do you feel you have what you need to go out and be competitive in the world?" Whether you're dealing with minority small businesses or small businesses in general, I think one of the largest and perhaps the greatest problem which the agency has discovered over many years, is lack of business sophistication. And, while I recognize what you're saying, that could be true. We don't want to de-emphasize the access to Government contracts, but it's essential to put a greater emphasis than we have in the past on business education.

STATEMENT OF JOSE PEREZ, ASSISTANT SECRETARY, EXECUTIVE OFFICE OF COMMERCE AND DEVELOPMENT, BOSTON, MA

Mr. **Perez**. Mr. Moffitt, I have a question. And, again, I agree with Ron and take issue on the question of expertise on minority businesses. And as a particular example, if a company was qualified enough today to do $28 million worth of business with the Federal Government, why will they not be qualified tomorrow to graduate from the program not to do business with the Federal Government?

Mr. **Moffitt**. He can do business with the Federal Government provided he can compete, he can competitively win those contracts.

Mr. **Perez**. Again, I represent, and I'm the point person on the State for Minority Business Development. And what I find across the board, particularly from awarding agencies that issue contracts, it's not the issue of the minority firms not being able to produce the product at a good price and competitively. It's the issue that once somebody gets out, either graduates from the program or someone meets their set-aside quota, then all of a sudden this minority firm does not become important. It's an issue that I'm taking to the department heads within our own administration, and the Governor is taking on, just because you've met—in our instance it's called Executive Order 237, your quota doesn't mean you stop doing business with minority business. And what I'm hearing here is that it's the fault of minority businesses that all of a sudden they no longer qualify to market your products to the same Federal bureaucracy that 2 weeks before or 1 year before was buying products from.

Mr. **Moffitt**. When did I say that?

Mr. **Perez**. You said——

Mr. **Moffitt**. When did I say——

Mr. **Perez**. Firms that are doing business and then when they graduate from the program they no longer have the expertise or the know-how to go out and produce products out there. And I have particular issue, because I deal with a lot minority——

Mr. **Moffitt**. I never said that.

Mr. **Perez**. Well, that was the implication.

Mr. **Moffitt**. I never said that. First of all, they are, when they graduate from the program, they are eligible to deal with the Federal Government on Federal contracts by bidding competitively.

What this gentleman was saying was, that in the 14 years he had been in the program until he got out of the 8(a) Program and had to go into the competitive world, he didn't realize what he didn't know about bidding competitively and about dealing with the real world. And that's where the agency, I think, has failed. I think they failed to impart that knowledge.

Senator **Kerry**. I think that part of what is being stated is frustration, that somehow there is a feeling that under 8(a) there is a specific sort of designated program and companies come along, and, "OK, we'll tolerate it. It's under 8(a), and we've got to do this." But, once 8(a) ends, somehow there's a mental block. There's a kind of process where people say, "OK, they've got their 8(a) piece, now we move on." And there's not a kind of natural flowthrough to say, "Hey, you know, they are doing this under 8(a), but now even though they are not getting it under 8(a), can't they continue to get that contract in the normal daily process?" And I think there's the feeling that there are too many sort of immediate cut-offs. Why is the process not continuing outside? Why does the relationship not go on?

Mr. **Dennis**. What tends to happen is that the work—same work—does not leave 8(a) environment that firm was doing. It stays in that environment and the firm graduates—their expertise gets left in the 8(a) environment. And the problem seems to be that that work cannot transfer out of the 8(a) environment along with the firm. And that seems to be the cutoff problem that I think the firms have been experiencing.

Mr. **Moffitt**. Well, typically, Dan, it does. It does go—it does go with the firm. One of the problems that the 8(a) Program has, is that those contracts frequently do leave the program and are not available to assist new companies coming into the 8(a) firm. Again, the idea of "What is the 8(a) Program?" "What is it supposed to do?" It's supposed to provide business development. It's supposed to provide non-competitive contracts to develop that business to where, after a period of time, that business can go out into the real world and compete, and those contracts, hopefully, go back into the 8(a) Program for new firms coming into the program.

Again, we're talking about 3,000 firms in a national portfolio, in an area where there are tens of thousands of minority business firms probably taking bids from the Federal Government.

STATEMENT OF JOHN WOMACK, PRESIDENT, JOHN'S JANITORIAL SERVICES, INC., PEABODY, MA

Mr. **Womack**. I would like to address another part of the statement about education in terms of the 8(a) contractors need to be educated about the program before they get into it.

I think there's another side of that education part, too. And that is, educating the contracting officers and people that we deal with in terms of the purpose of the program. And I would like to know what SBA can do in assisting us in educating those people.

From what I've found in dealing with the contracting people, that I'm doing more training out there training these contracting people in terms of what their job should be than they are in terms of helping understand the program.

A good example would be what you were talking about with this company who was doing $20 million and then got out of the program and didn't know what to do. I see the reverse part of that as well. I'm a contractor who tries to go out and bid competitively while I'm in the 8(a) Program.

When I go out and bid competitively across the country, then I have a contracting officer who I'm dealing with on an 8(a) contract come back to tell me about my overhead and profit, and that I need to cut that down because I'm a successful company, I should be able to cut back on my profit and overhead. And I think we need to educate those contracting people out there about the purpose of the program so that we are able to survive. And when we graduate, that we can go out and be competitive and stand on our own two feet out there as any other company. So I think some education needs to be done in that line.

Mr. **Moffitt**. I think you're right. We have tried, and are now working more closely with the Chairman of Senate Representatives who managed the last year's Procurement Program to deal more successfully with Federal contracting offices. They are not sometimes the most sensitive group of people in the world, as you've discovered. But their job is very different from the PCR or the BOS. Their concern is to build the building or get the contract accomplished. They are not looking to develop minority businesses. Perhaps that ought to be dealt with within their department or their agency, but I think, John, you've got to realize that their goal is very different than the BOS who would deal with you, is very different than SBA's goal. They're not looking to develop minority business. So that sensitivity has to come from within, and those goals and that desire to have that happen has to come from within that department or that agency. We can't superimpose it on it.

Mr. **Womack**. I think they have a different goal. I think their goal is to make sure that the 8(a) Program don't work.

Mr. **Moffitt**. Well, I think that's true. I think, obviously, you find situations where you have contracting officers that are actively hostile to the 8(a) Program. A couple of years ago, when Bob Wilson was here, we went to Connecticut. We had a number of 8(a) firms in Connecticut in the portfolio, as well as many minority non-8(a) firms to show them the benefits of the 8(a) Program. Wherein, we had a goodly number of contracting offices from the various installation around New England. And I'm not sure that after hearing some of the contracting officers that those people who were not in the 8(a) Program felt there was any great benefit in the program, at all. One contracting officer whose agency does millions of dollars worth in New England stood up and said, "Well, there weren't any 8(a) contracts in New England with my agency last year, because there really wasn't any companies in the portfolio who could perform them." Which, of course, is bolony. Another contracting officer stood up and said, "Well, first, I don't know if any of you companies are really sophisticated enough to do the things we do out here, but in case you are, here's my number."

You're right. I mean, there is a lot of hostility toward the 8(a) Program by other—by the Federal procuring agencies. There's no question about that. That has always been the case, and I don't, quite frankly, see that there's going to be any dramatic change in the next few years unless there is a dramatic change in the leadership of that agency or that department to make those contracting officers more sympathetic. I mean, they're—basically, they're going to take their leave from the top. And if that's not important to the people who run those agencies and departments, it's not going to be important to them. It's as simple as that.

Senator **Kerry**. Let me ask you, since you raised the issue about lead from the top; the administration for 6½ years has been trying to do away with the SBA itself, and we've had some——

Mr. **Moffitt**. But not the 8(a) Program.

Senator **Kerry**. Well, you've got to be a better person than I am to draw the distinction.

Mr. **Moffitt**. Senator, you know that there is a transfer proposal doing whatever the 8(a) Program wasn't wanted to propose.

Senator **Kerry**. I know. We didn't want our—we didn't want to rub every ox simultaneously. We were going to do it incrementally, I suppose.

My problem is that the message that gets sent—I mean, you know, you've got to demoralize staff. Let's face it—all across this country. You've got people who don't know if the—who know the administration hasn't been behind them; who don't know if they are going to have jobs or what the next day. We've had staff reductions. Your best people say, "This isn't the place to go." You, yourself, and very bravely—and I applaud you for having said it—acknowledge that in parts of the country and in Washington, it's been a dumping ground; the 8(a) Program.

Mr. **Moffitt**. That's true. That's true. That's got nothing to do—and unfortunately—not to interrupt, but I guess to interrupt—

that's not a policy of the administration. As you point out, when you are proposing death for an agency, you don't bother to micromanage within the agency. That's been an attitude in SBA for a good long time, and I think it goes back to the sensitivity question in this case, that many in our agency themselves, were not particularly sensitive about this program. It's regarded as a give-away program, so therefore, we don't care if it works, or necessarily the capability or the dedication of people who do work there.

I, again, want to stress that that's not been the case in this region. I think there's a number of 8(a) contractors here today who will state that that's not been a problem. And it has been a problem that only SBA can address. I'm sorry.

Senator KERRY. No, that's all right. Let me just ask you—this will be the last question on this panel.

What is—I mean, tell us what—I'm sure I know, but I want to have it on the record anyway—what's the commitment today, right now, in this waning moment of the administration's time to effect the program? What is the commitment to these changes, and what can we expect in the next months as we try to form a reform effort here? Are we going to have the administration's support for additional personnel, if necessary, in order to implement or for additional willingness to contract in order to do the appropriate consulting and training?

Mr. MOFFITT. I would be very amazed if we have any amount of increase in personnel, overall. However, you do have the commitment of the head of this agency and people like myself to shift resources into the program, where it's needed. Keep in mind that we're looking in our 1988 budget. The financial portfolio has shrunk. There is an opportunity or potential to shift some people from our F&I section to MSB. But I really think that it isn't so much the numbers that's the problem. It's the quality, and it's the direction that's—in the agency. I'm just talking about the agency now, not other agencies. That's been lacking. That is being dealt with, and I think it can be dealt with more successfully.

Senator KERRY. I want to thank you on behalf of everybody for taking the time to come up. We appreciate the testimony enormously, and I think that folks here would be very anxious to try to work closely to end this notion of give-away; to give it appropriate definition. I haven't met anybody who isn't willing to compete, but there are folks who need some development in the expertise in doing that. And I think if we can work cooperatively for that, we can get a lot more for the dollar expended, and a lot better end result, and I hope we can do that.

Mr. MOFFITT. Senator, I agree with you, and I think that one of the hopeful by-products—helpful by-products of all of this Wedtech business has been the recognition that the program needs to be changed. It's been the recognition that we need to concentrate on business development and to put some more time and more resources and more effort into this program.

I think that happened so that ultimately Wedtech may become more of a positive thing to minority small business than a negative thing.

Once again, I'm very happy with the opportunity and appreciative to come to testify today and look forward to working with you in the 1½ years ahead to change and improve the program.

Senator **Kerry**. Who knows, if we get enough done in the 1½ years, then under president Dukakis, we can do a lot more. Thank you very, very much.

Mr. **Moffitt**. Thank you.

Senator **Kerry**. We wouldn't have a quorum if I ran in the Senate. Thank you very, very much.

We're going to go into the next panel, and I would like to ask my colleagues up here, who I know want to make a comment at some point, I think if you could make your comments, perhaps in summary at the end, it would allow you to both make the initial comments you want plus react to where we've gone in the course of the morning.

So if I could ask Dr. Alfred Daniels, who is the president of H.A. Aerospace Design from Bedford, MA; Mr. John Cruz, president of Cruz Construction Co. from Roxbury; and Ms. Esmeralda Santiago, who is president of CANTOMEDIA Corp., if they would come forward, please?

Let me just say to the listening audience that each of the participants in this current panel either are or have been 8(a) participants, and they will share with us first-hand experiences and observations on the program and thoughts about where we can and should go.

And I welcome you all to the hearing and thank you very much for taking time to do it. Why don't we begin, Ms. Santiago, with you—or, do we have a different—Dr. Daniels, why don't we begin?

Dr. **Daniels**. I'll certainly defer to the lady, sir.

Senator **Kerry**. Either way. It doesn't matter. Esmeralda, why don't you go ahead and begin.

STATEMENT OF ESMERALDA SANTIAGO, PRESIDENT, CANTOMEDIA CORP., HINGHAM, MA

Ms. **Santiago**. Thank you. I do have a plane to catch, so I appreciate it.

Thank you very much for having me testify here today. I am very happy to do it and, in fact, I feel like this is a wish fulfilled.

As the Senator mentioned, my name is Esmeralda Santiago. I'm the owner of CANTOMEDIA which is New England's only Hispanic-woman owned multi-media production house.

Our business is motion pictures and public service announcements for business, Government, and education.

I hope that what I have to say will help you in your evaluation for the program's effectiveness and in your efforts to make it better serve the needs of minority businesses.

CANTOMEDIA was founded 10 years ago and incorporated in 1980. I'm the president and largest minority shareholder with 55 percent of the shares. My husband, Brent Cantor, who is not a minority, owns 45 percent of the business.

CANTOMEDIA was certified 8(a) in May 1980, but received its first 8(a) contract in the fall of 1982. My experiences during the process of certification are part of the written testimony I've given to the Committee, which are so long I didn't feel I could read them to you.

As small businesses go, we are tiny. In the last 5 years, CANTOMEDIA has received $1.4 million dollars in 8(a) contracts. This has represented 48 percent of our total sales for the same period.

I don't agree that a minority business should be accepted into the program just because the owners are members of a minority group. I think they have to be business men and business women. And their minority status is what is holding them back. There's a subtle difference here, but an important one. Anyone who hopes to be a successful entrepreneur has to have the skills and drive necessary to do it and sex and race should not come into play. I'm not naive enough to think this is necessarily the way things are and only the way they should be.

I think the process of having to generate a business plan, financial accountability reports and a philosophy of why one is going into business in the first place is a good exercise in the way things are done in the World outside of the 8(a) Program.

Honor isn't as confusing as the paperwork the program requires, maybe. It's only a prelude to what banks and lending institutions ask for.

CANTOMEDIA is a self-marketing 8(a) firm, which means that we don't receive marketing assistance from the SBA. I identify potential clients. I make the calls. I make the presentations. I follow-up. We write our own proposals; prepare our own budgets and negotiate our own contracts.

After a contract has been assigned, the SBA approves and signs the contract before we can do the work. And I must stress that before we can do the work, they have to sign it.

Shortly after we were certified, I asked about business development expense funds. I was told not to bother. The process would take several months, and I was better off going to the bank for money. I never even brought up the question of advanced payments, but I have asked the SBA to intervene when clients have been less than prompt to pay. We've taken advantage of 7-day management and technical assistance. Through the work of the 7-day financial and accounting consultants—Daniel, that is, who I just met today—we've upgraded and updated our financial and bookkeeping systems. We've also received marketing assistance, but while they meant well, I didn't think the consultant really understood what we were trying to accomplish and didn't make very creative accommodations. We also learned from a client that the 7(j) marketing consultant, also an 8(a) company, had been pitching them for our business at the same time as they were supposed to be helping us with our marketing entries.

We've never had an 8(a) sole-source contract the first time out with a client. We've had to compete with other 8(a) firms. And only after we've proven we can do the work, has the client taken advantage of sole-source contracting.

On the other hand, our 8(a) status has been an advantage for both CANTOMEDIA and its clients. It has narrowed the field of potential bidders for contracts. For the client, this means a shorter turnaround in the procurement process because there are fewer proposals to evaluate. This is an advantage for Government agencies that must assign contracts before the end of the fiscal year.

For us, it means that we are competing against fewer companies. It also means we have less time to prepare a proposal and must negotiate under incredible time pressure.

I believe in competition because it means that I must produce a high quality product if I hope to stay in business. In our case, CANTOMEDIA was not always the low bidder, but during negotiations I suggested that our quality more than make up for the—more than made up for the slightly higher price. Most of our clients agreed.

I also believe that an 8(a) company should be required to develop a certain percentage of non-8(a) work while they are in the program. This insures that the company does not become dependent on 8(a) contracts. It also means that the company is competing in the real world of business enterprise. This is crucial if you're ever to be self-sustaining.

In our case, having an 8(a) contract didn't mean we stopped pursuing other competitive work. In fact, more than half our business came from non-8(a) sources. In some cases, the fact that we were a minority-owned was a consideration in evaluating a proposal, but not the only consideration.

I don't have specific recommendations on how long a company should be in the program before it's graduated, but I do know that the current system needs to be evaluated. It's a simple fact of business that it takes some companies longer to be successful than others. An arbitrary time period is a dis-service to those companies that need more time, while allowing those that could be self-sustaining to get lazy. However, I do believe a periodic evaluation where a company is self-sustaining should be gained, but not by the 8(a) Program staff. It's in their interest to keep the companies that are getting only 8(a) contracts in the program because it shows how successful the program is.

A review by an independent group, preferably one comprised of members from the business community at large, rather than a Government agency, would be better able to make that determination based on the sound judgment of working business men and business women who presumably know what to look for.

We're due to graduate in March 1989. We are preparing for that eventuality by marketing less in our 8(a) status and more in the professional reputation we've earned while we've been in the program.

I must admit that being in the 8(a) Program has been a blessing as much as a curse. It's been nice to predict with some certainty, how much business will be coming in every year with 8(a) contracts. But it's also been difficult to keep telling clients our prices are now lower just because we're minority-owned. And it's depressing to hear clients say "You're too good to be a minority firm." It says that somewhere perception and reality are meeting, and that there are some incompetent 8(a) businesses out there giving the rest of us a bad name.

From the beginning, I thought of the 8(a) Program as an opportunity to get on-the-job training. Through the reduced competition, I've been able to learn about the marketplace demands, comfortable in the thought that some of my efforts would result in sales. I can count on the business staying alive, but I learn more about how to run it or how to make it as good as it needs to be in order to compete. I never sought to get rich off the program, which says something about self-fulfilling prophecies. I only wanted to be able to get myself upright enough to be in the running as a serious business.

I appreciate the efforts you are making to evaluate and upgrade the program on the status of minority business and enterprise. But don't forget that as many complaints and horror stories as you will hear over the course of the hearings, you will also hear success stories that owe at least their beginnings to the program. And don't forget that as you seek to revise the 8(a) Program, there are thousands of legitimate minority business men and business women who need at least that first push into the marketplace to get them on their feet. You're looking at one.

Now that CANTOMEDIA has been able to develop to a point where it can be respected as a business, in spite of the fact that it's woman-owned and Hispanic-owned, I'm proof that with all its faults, the 8(a) Program has done some good.

As you seek to reform it, keep in mind one thing, the minority populations in this country are growing faster than the so-called majority. If we want a future as bright as our past, we have to support and encourage economic development in the minority communities. And what better way than to allow us to develop the skills necessary to function as the future of the wealth of this country, not just as consumers. Thank you.

[The prepared statement of Ms. Santiago follows:]

Boston MA [illegible]
[illegible]

Administration
241 North Street
Hingham MA [illegible]
[illegible]

Esmeralda Santiago
President

Frank Cantor
[illegible]

CANTOMEDIA

TESTIMONY PRESENTED BY
CANTOMEDIA PRESIDENT ESMERALDA SANTIAGO
TO THE SENATE SMALL BUSINESS COMMITTEE FIELD HEARINGS
ON THE SBA'S 8(a) PROGRAM

September 2, 1987

Thank you for the opportunity to testify before this Committee regarding the 8(a) program. I hope that what I have to say will help in your evaluations of the program's effectiveness in encouraging minority businesses.

I'm the President of CANTOMEDIA, New England's only Hispanic woman-owned multi-media production house. We specialize in motion pictures and public service announcements for government, business and education.

CANTOMEDIA, was founded ten years ago, and incorporated in 1980. I'm largest minority shareholder, owning 55% of the shares. My husband, Frank Cantor, who is not a minority, owns 45% of the business. We were certified 8(a) in 1980, and received our first 8(a) contract in 1982. We have five full time employees.

From the beginning, there have been clear lines of responsibility for the management of the business. I mention this because during the certification process, what I did and what Frank did seemed crucial to whether we would be certified by the Small Business Administration. I was told that husband/wife companies in which the wife is a minority come under greater scrutiny by the 8(a) program because of the increased possibility that she may be a front. The assumptions here are, of course, that women are not serious business persons, that minorities can't operate without a non-minority partner, that husbands and wives can't work together as professionals, that minority women are there to be used by majority men, and a whole bunch of other mysogynist, racist, stupid assumptions that have no basis on reality and say more about the person who holds those opinions than about those of us who must suffer them.

But to answer why we decided to seek 8(a) certification in the first place. After working in Boston about five years, and earning a good professional reputation, I lerned that my resume was being used by non-minority firms to fulfill requirements for minority participation in government audio-visual projects. This would not have been so insulting had I actually received work from these companies.

From the beginning, I had doubts about identifying my company as a minority firm. Particularly after several marketing trips to Washington in which I was told point blank that minority businesses do substandard work, and the only reason they're considered is because each agency has to fulfill a quota.

It's difficult to smile and be polite to a prospective client who makes these remarks, which are not only unfair, but untrue. On more than one occassion, the notorious (and stereotypical) Latin temper with which I've been blessed has been known to erupt in the most hallowed of government halls, in defense not only of my own abilities but those of my colleagues and, yes, even my competitors. I'm sad to report that this attitude has not changed, and that in fact it has become worse with the well publicized scandals of companies like Wedtech, which I may add, was destroyed by greedy, powerful, white men.

I also learned, but am not sure if it is true, that interviewing minority owned firms "looks good on the books" even if no work results from the interview. If this is so, I've spent a great deal of money and time, flying in and out of Washington, to make presentations before government agencies that have no intention of even considering CANTOMEDIA for a contract. I also believe it is this attitude that ensures I'm busy filling out "Qualified Vendors List" from numerous government agencies at the rate of two or more per month. Not one contract has resulted from these efforts.

You've asked me to speak about the certification process, which I'm still trying to get over. Yes, I did meet with what I still feel was an undue amount of hostility.

I was told that, before I could be certified I had to incorporate. Many hours and hundreds of dollars later, I found out this was not necessary. The incorporation process delayed my application for several months.

I appealed to the Small Business Development Center, where I was able to get help preparing a Business Plan. I was encouraged to pursue my application during times when it seemed easier to just dump everything in the waste basket and go on with my life. The Business Specialist at the SBDC, which at that time was run by Northeastern University, was supportive, and told me I had every right to be angry and feel defensive about how long the process was taking, and how difficult it was to get any real answers to my questions.

There were already two 8(a) certified film production companies in Boston when my process began, both owned by black men. From the beginning it was clear that CANTOMEDIA intended to pursue very different work from the other companies. I was not interested in, nor marketed for, slide shows or training programs, choosing instead to focus on "agency image" films and programs aimed at the nation's growing Hispanic population. I also stressed in my application that my company would be the only Hispanic woman owned multi-media production house in New England. In spite of this, on more than one occassion, I was told by the SBA that Boston did not need another 8(a) film company.

Nevertheless, I went ahead with my application. It was then that I was told that, before CANTOMEDIA could be certified, I had to demonstrate that there were contracts available to support our participation in the program. Essentially, I was put in a very expensive Catch 22 situation. I had to drum up business based on the possibility that I'd get 8(a) status. But I wasn't eligible for an 8(a) contract because I wasn't certified. If I could get a government agency to commit a contract to my company, I was told, I'd be be certified.

Much to the SBA's surprise, I was able to get a government agency to say that, if CANTOMEDIA were certified, they'd give us a contract. It was my impression that who this client was and what they were offering was confidential--which is why what happened next was absolutely incredible.

My prospective client, developed at my own expense, called to tell me that they'd received a call from one of my competitors in Boston suggesting that the contract that had been set aside for us should be given to them, a duly certified firm. And where had they learned that this contract existed? Why, from none other than the SBA.

It was then that I called my Congressman, my Senator, and my lawyer. Fortunately, I didn't need the lawyer. While I can't prove my Congressman or Senator interevened, I was certified within a week, on a friday. That monday, a moratorium on further 8(a) applications was declared, and no new 8(a) contracts could be assigned until further notice. When the reorganization was complete, I had to re-submit my application, although this time it was more of a formality because I had not only been accepted into the program, but actually had clients waiting to buy my services.

I don't agree that a minority business should be accepted into the program just because the owners are members of a minority group. I think they have to be business men and women, and their minority status is what's holding them back. There's a subtle difference here, but an important one. Anyone who hopes to be a successful entrepreneur has to have the skills and drive necessary to do it, and sex and race should not come into play. I'm not naive enough to think this is necessarily the way things are, only the way they should be.

I think the process of having to generate a business plan, financial accountability reports and a philosophy of why one is going into business in the first place, is a good exercise in the way things are done in the world outside of the 8(a) program. Onerous and confusing as the paperwork the program requires may be, it's only a prelude to what banks and lending institutions ask for.

CANTOMEDIA was certified 8(a) in May 1980, but received its first 8(a) contract in the fall of 1982. As small businesses go, we're tiny. In the last five years, CANTOMEDIA has received $1.4 million in 8(a) contracts. This represents 48% of our total sales for the same period.

CANTOMEDIA is a self-marketing 8(a) firm, which means that we don't receive marketing assistance from the SBA. I identify potential clients, I make the calls, I make the presentations, I follow up. We write our own proposals, prepare our own budgets, and negotiate our contracts. After a contract has been assigned, the SBA approves and signs the contract before we can do the work.

Shortly after we were certified, I inquired about Business Development Expense (BDE) funds. I was told not to bother. The process would take several months, and I was better off going to my bank for the money. I never even brought up the question of Advance Payments, but have asked the SBA to intervene when clients have been less than prompt to pay.

We have taken advantage of 7(j) Management and Technical Assistance. Through the work with the 7(j) financial and accounting consultants, we've upgraded and updated our financial and bookkeeping systems. We've also received marketing assistance, but, while they meant well, I didn't think the consultant really understood what we were trying to accomplish and didn't make very creative recommendations. We also learned from a client that the 7(j) marketing consultant had been pitching them for our business at the same time as they were supposed to be helping us with our marketing efforts.

We've never had an 8(a) "sole source" contract the first time out with a client. We've had to compete with other 8(a) firms, and only after we've proven we can do the work has the client taken advantage of "sole source" contracting.

On the other hand, our 8(a) status has been an advantage for both CANTOMEDIA and its clients, as it has narrowed the field of potential bidders for a contract. For the client, this means a shorter turnaround in the procurement process, because there are fewer proposals to evaluate. This is an advantage for government agencies that must assign contracts before the end of the fiscal year. For us it means that we're competing against fewer companies. It also means we have less time to prepare a proposal and must negotiate under incredible time pressure.

I believe in competition, because it means that I must produce a high quality product if I hope to stay in business. In our case, CANTOMEDIA was not always the low bidder, but during negotiations I insisted that our quality more than made up for a slightly higher price. Most of our clients agreed.

I also believe that an 8(a) company should be required to develop a certain percentage of non 8(a) work while they're in the program. This ensures that the company does not become dependent on 8(a) contracts. It also means that the company is competing in the "real world" of business enterprise. This is crucial if we're ever to be "self sustaining."

In our case, having 8(a) contracts didn't mean we stopped pursuing other competitive work. In fact, more than half of our business came from non 8(a) sources. In some cases, the fact that we were minority owned was a consideration in evaluating a proposal, but not the only consideration.

I don't have specific recommendations on how long a company should be in the program before it's graduated, but I do know that the current system needs to be evaluated. It's a simple fact of business that it takes some companies longer to be sucessful than others. An arbitrary time period is a disservice to those companies that need more time, while allowing those that could be self sustaining sooner to get lazy.

However, I do believe a periodic evaluation of whether a company is self sustaining should be made, but not by the 8(a) program staff. It's in their interests to keep the companies that are getting all the 8(a) contracts in the program, because it shows how successful the program is. A review by an independent group, preferably one comprised of members from the business community at large, rather than a government agency, would be better able to make that determination based on the sound judgment of working businessmen and women who presumably know what to look for.

We're due to graduate in March of 1989. We're preparing for that eventuality by marketing less on our 8(a) status and more on the professional reputation we've earned while we've been in it.

I must admit being on the 8(a) program has been a blessing as much as a curse. It's been nice to predict with some certainty how much business will be coming in every year from 8(a) contracts. But it's also been difficult to keep telling clients our prices are not lower just because we're minority owned. And it's depressing to hear clients say "you're too good to be a minority firm." It says that somewhere perception and reality are meeting, that there are some incompetent 8(a) businesses out there giving the rest of us a bad name.

From the beginning, I've thought of the 8(a) program as an opportunity to get on-the-job training. Through the reduced competition, I've been able to learn what the marketplace demands, comfortable in the thought that some of my efforts will result in sales. I can count on the business staying alive as I learn more about how to run it and how to make it as good as it needs to be in order to compete. I never sought to get rich off the program, which says something about self-fulfilling prophesies. I only wanted to be able to get myself upright enough to be in the running as a serious business.

I appreciate the efforts you're making to evaluate and upgrade the status of minority business enterprise as it relates to the 8(a) program. But don't forget that as many complaints and horror stories as you will hear over the course of the Hearings, you will also hear success stories that owe at least their beginnings to the program. And don't forget that, as you seek to revise the 8(a) program, there are thousands of legitimate minority businessesmen and women who need at least that first push into the marketplace to get them on their feet. I'm one of those people. Now that CANTOMEDIA has been able to develop to a point where it can be respected as a business, in spite of the fact that it's woman owned and Hispanic owned, I'm proof that, with all its faults, the 8(a) program has done some good.

As you seek to reform it, keep in mind one thing. The minority populations in this country are growing faster than the so-called majority. If we want a future as bright as our past, we have to support and encourage economic development in the minority communities. And what better way than to allow us an opportunity to develop the skills necessary so that we function as producers of the wealth of this country, not just consumers.

Esmeralda Santiago

Senator KERRY. Thank you very much. John Cruz.

STATEMENT OF JOHN B. CRUZ III, PRESIDENT, JOHN B. CRUZ CONSTRUCTION CO., INC., ROXBURY, MA

Mr. CRUZ. Thank you for allowing us to apply for this testimony. I apologize for it. There's too many typographical errors. Our computer went out yesterday because of a leak and we ended up doing it on a typewriter.

My name is John Cruz III. I am president of John B. Cruz Construction Co., 1 John Eliot Square in Roxbury. The company is a general contractor and real estate development firm.

Senator KERRY. John, can I just ask you to move the mike a little closer so everybody back here can share with you? Thanks.

Mr. CRUZ. The company was founded by my father, John B. Cruz, Jr. in 1948, not 1968 as the type shows. He would shoot me for that—as a carpentry subcontracting firm. We entered the program in 1977, approximately, and graduated in 1984. The total number of 8(a) contracts received were nine. The total dollar value is approximately $16 million.

At present, we have approximately 75 to 80 employees; 25 are office and 50 are field employees. Our total contracts on-hand are approximately $28 million.

The 8(a) Program was helpful to our firm's growth during our early development years as a general contracting firm. The ability to supplement the private market with an occasional contract through the SBA helped fill in some of the voids that developed when we were unable to secure work in the private sector.

As you may note, I said "occasional contracts," because there is an inherent danger making a firm's sales too heavily dependent on the 8(a) sector. This would become the path of least resistance and discourage penetration and concentration on the more competitive and frustrating route of securing work in the private sector.

When we needed the additional help, the 8(a) Program was critical in allowing us to keep on key staff and not have to cut back. Our firm did apply once for advance payment, and we found it to be very helpful. We've never received any business development expense money, although I think they could enhance a firm's capabilities to perform. We were, however, the recipient of 7(j) management and technical assistance.

This area is where I feel the SBA was the weakest. The consultants used weren't very knowledgeable of the construction industry. The two asked were actually initiated by the SBA, I think in response to consultants looking for work, rather than us, the contractor, needing assistance. It would be better to use established construction consulting firms or contractors for providing these services rather than the consultants that we had the experience using. The annual cost, if any, would achieve far greater benefits accruing to the 8(a) contractors. I don't believe contractors should compete for work in their first 2 or 3 years in the program. I do think, however, as they grow and the jobs become larger, it would be helpful in developing competitiveness if they bid against similar size in capable 8(a) firms if they are available in the portfolio. I would just like to clarify that and say that any—at least when it has a minority contracting aspect—if any minority contracting is successful, believe me, Senator, they have to be very, very competitive in the private sector. I don't think that—I do think that 7 years is a sufficient time for a construction company to realize substantial help from the SBA 8(a) Program, providing they are receiving at least one or two contracts a year. I do feel the SBA's marketing program, again, needs to be strengthened quite a bit.

The larger 8(a) contractor usually has the resources to do their own marketing and were, in many cases, very successful in marketing for contracts themselves. The smaller contractors, unfortunately, who need the marketing services even more, do not get the adequate help in marketing their contracting services.

Another weakness is after graduation, you find that the P.L. 95-507 enforcement or education program is a joke. The SBA should assign marketing specialists to work with the firm from their initial entry into the program with more emphasis on securing private work during the latter years. Our firm has tried to market our construction services to a number of major companies who are contracting work with the Government, and have been continuously frustrated in our attempts to be included on their select bid list. As a matter of fact, we no longer try to market in some of the major firms, who we assumed would be reciprocal to us because of the P.L. 95-507 language.

I do think the SBA should enforce and actively market the joint ventures between a graduated 8(a) firm and a smaller 8(a) firm. From our own experience, our firm was able to gain a substantial amount of experience from a joint venture we had with a major contractor on a non-8(a) Program job. As was the case with our firm, the smaller firm, we were able to tap the management expertise and the building capabilities of a larger firm and learn from their management systems already in place.

It might also lessen the impact for those graduating firms that have found it difficult to sustain the volume of sales they need in the private market. In effect, both parties would be helping each other.

One of the most glaring dis-services to the minority business community for which the 8(a) Program is designed to serve, is the lack of jobs or projects the various Government agencies make available for use in the 8(a) Program, along with the extended amount of time it takes to become certified. With the larger firms phased out of the program through graduation, the program is now dying from benign neglect.

[The prepared statement of Mr. Cruz follows:]

September 1, 1987

Dear Gentle Person:

My name is John B. Cruz, III, I am President of John B. Cruz Construction Company, Inc., 1 John Eliot Square, Roxbury, Mass. The Company is a General Contracting and Real Estate Development firm. The Company was founded by John B. Cruz, Jr. as a carpentry firm in 1968.

We entered the 8(A) Program in 1977 and graduated in 1984. The total number of 8(A) contracts received were 9. The total dollar value was approximately Sixteen Million Dollars ($16,000,000).

At present we have approximately 75-80 employees 25 office employees and 50 field employees.

Our total value of contracts on hand is approximately Twenty Eight Million Dollars ($28,000,000).

The 8(A) Program was helpful to our firm's growth during our early development years as a general contracting firm. The ability to to supplement the private market with an occasional contract with SBA helped fill in some of the voids that developed when we were unable to secure work in the private sector. As you may note, I said occasional contract. There is an inherent danger in making a firm's sales too heavly dependent on the 8(A) sector.

This will become the path of the least resistance and discourage penetration and concentration on the more competitive and many frustrating route of securing work in the private sector. When we needed the additional help SBA 8(A) Program was critical in allowing us to keep on key staff.

Our firm did apply once for advance payment and we found it to be helpful. We never received any Business Development Expense (BDE) monies. Although, I think, they enhance a firm's capabilities to perform. We were, however, the recipient of 7(J) Management and Techanical Assistance. This area is where I feel the SBA was the weakest.

The consultants used wasn't very knowledgeable of the construction industry. The two tasks were actually initiated by the SBA, I think, in response to the consultants looking for work rather than us, the contractor needing assistance. It would be better to use established construction consulting firms and or established consultants provided these services. The annual cost, if any, would achieve greater benefits accurring to the 8(A) contractors. I don't believe contractors should compete for work in their first two or three years in the program. I do think, however, as they grow and the jobs become larger it would be helpful in developing competitiveness if they bid against similar size 8(A) firms if they are available.

I do think that seven years is a sufficient time for a construction company to realize substantial help from the SBA 8(A) Program provided they are receiving at least one or two contracts a year. I do feel the SBA's marketing program needs to be strengthen quite a bit.

The larger 8(A) contractors usually has the resources to do their own marketing and were in many cases very successful in marketing for contracts themselves. The smaller contractors unfortunately who need the marketing services even more do not get adequate help in marketing for the contract opportunities.

Another weakness is after graduation you find that 95-507 enforcement or education is a joke. The SBA should assign marketing specialist to work with the firm from their initial entry into the program with more emphasis on private work during the latter years. Our firm has tried to market our construction services to a number of major companies, who are contracting work with the Government and have been continuously fustrated in our attempt to be included on their select bid list.

I do think the SBA should enforce and actively market the joint ventures between a graduated 8(A) firm and a smaller 8(A) firm. From our own experience our firm was able to gain a substantial amount of experience from a joint venture we had with a major contractor on 8(A) project. As was the case then our firm, the smaller firm, was able to tap the management expertises and the building capabilities of the larger firm and learn from their systems already in place.

It might also lessen the impact for those graduate firms that find it difficult to substain the volume of sales they need in the private market. In effect both parties would be helping each other.

One of the most glaring disservice to the minority business community, which the 8(A) Program is designed to serve, is the lack of jobs the various government agencies make available for use in the 8(A) Program along with the extended amount of time it takes to become certified. With the larger firms phased out of the program through graduation, the program is now dying from benign neglect.

Senator KERRY. John, thank you very much. Dr. Daniels.

STATEMENT OF DR. ALFRED C.W. DANIELS, PRESIDENT, H.H. AEROSPACE DESIGN CO., BEDFORD, MA

Dr. DANIELS. Senator, gentlemen, staff. My name is Al Daniels. I'm the president——

Senator KERRY. You're the first guy to ever say hello to the staff.

Dr. DANIELS. We intend to work with them, Senator. I'm president of H.H. Aerospace Design Co., and my purpose today is to give a statement on behalf of the Black Corporate Presidents of New England and it's president, Mr. Womack, sits on the panel.

We would like to have our statement entered in full for the record.

Senator KERRY. It will be.

Dr. DANIELS. It's the case that it's best when discussing procurement items to look at the marketplace. I think not too many people understand that the marketplace is huge and that it is not a level playing field.

As you will note from my testimony, it seems to be the case that on an annual basis, some 80 percent of the contracts are made available to small business, but that 80 percent represents about 20 percent of the dollars. And, of course, the argument goes the other way. Some 20 percent of the contracts fall outside of small business and 80 percent of the dollars reside there.

I raise this point to make an initial observation. Perhaps the main and salient point for having both 15A small business set-asides and an 8(a) Program is to perfect that marketplace, to provide more goods and services from small businesses and minority businesses and women businesses.

When one looks historically at the 8(a) Program, it's clear that it was originally very SOP driven. That is, utilizing the SOPs within the SBA, this program was essentially a business opportunity program. The purpose of P.L. 95-507 in the late 1970s was to change it into a business development program. One in which the goals that we are talking about today could be achieved.

Unfortunately, in 1980 something appeared to be at the outset had some benefits in 1981 passed many regulations treated a new relationship between the 8(a) portfolio and the SBA; namely, a not very cleanly negotiated contract, I might add.

Regardless of that point, companies had what was called fixed program participation terms or the infamous FPPT. Indeed, the results of the FPPT Program was that in the first 4 years immediately following April 1982 when the implement regulations were put in place, as many as three times as many firms left the 8(a) Program, as had left in the 10 years prior.

We want to applaud the Senate survey which gives excellent feedback in terms of the impact of P.L. 99-661. Namely, to have lost some of the advantages of business development intended by P.L. 95-507. Indeed, we find, as we analyze the bills that stand, that the survey represents good feedback criteria. Several are sampling some of the things you surveyed tells us for general dissemination. It tells us that the goals of trying to get a fair proportion of the work available in all the industry categories similar to the (inaudible) just hasn't happened. We still have a preponderous of firms that are not all over the marketplace, but rather centralized.

Moreover, it tells us that those firms sell—they really did not get business development. In great part, they felt this was due to P.L. 95-507 which held the program back for 5 to 7 years depending on whether or not one got an extension.

Moreover, it is the case that the firms felt that they left the program abruptly, without much notice and moreover, those firms complained that the program really turned out not to be business development as they had hoped and had been promised. But rather, it was get your opportunity, and now you're out.

As we looked at the family of rules that are on the Floor of the House, beginning with Mavroules bill, H.R. 1807 on which he testified, one recognizes that it is, in great part, a return to H.R. 3482, which was introduced by Congressman Mitchell a year or so earlier. Namely, it was a program in which program participation stages were identified with the terms being 84, 2 years, respectively in developmental transition and mainstream.

In the first of those two program participation stages, 8(a) contracting was permitted; in the latter 2 years, it was not. We applauded and supported the Mavroules legislation. As you know, it was quickly followed by H.R. 23 denied by Congressman Conte with the help of his staff D'Angelo and in many ways, we were concerned about H.R. 2269 because H.R. 2269 took the approach that if you were a small business and minority-owned, whether you controlled or directed the business or know, you by right, could petition for 8(a) status. Having been granted such status, you could compete for contracts. And that's the only kind of contracts you could bid competitively.

H.R. 2972, which was introduced by Richardson, was a bill that seemed to take a slightly different approach to the ambivalence. It, firstly, argued for a 10 year program. Moreover, it looked to perhaps a 3 year sort of a followup for light contracting with agencies that had been contracted with before, which, of course, meets some of the objections referred to earlier.

Moreover, it seemed to take a pretty hard stand in terms of implication of P.L. 99-661, indeed it said, "We want to see that 5 percent program work. If it isn't, then we're going to try to push harder. We don't just want it to be a goal. We like to see legislation codification, if necessary." It also took a slightly different stand on options. The Mavroules legislation says that as you go out of the program with options, the certification require the 8(a) firms to retain ownership. Richardson did not see the need for that; Mavroules did.

Finally, of course, there was the Mavroules/Conte Compromise, and we note that in the Mavroules/Conte Compromise, that competition is introduced throughout the program. That has been much more competition-intensive legislation. It calls for program participation stages of 43 in 2 years with H.R. 1540 and 100 percent compensation, respectively. It is the case that it holds the program down to 7 and 9 years, depending on how you're looking at it.

We tried to, as we analyzed, indicated to you earlier, to use the feedback as criteria in order to establish our own views, conclusions, and recommendations relative to the extant Houseside of legislation in order to, perhaps, give you some thoughts from BCPNE.

We do continue to support H.R. 1807. We think that properly managed by the SBA that it would go a long way to preventing the abuses that are currently invoked and in the press.

We, as a body, feel that H.R. 2269 is essentially a return to the days of yesteryear, with business opportunity being the byword, and moreover, by virtue of using only an ownership by a disadvantaged person, rather than the economic requirement of social or economic disadvantage, that this perhaps would permit some of the abuses that we're trying to actually avoid. So, we did not like the idea of a program that did not require the economic conditions.

In the case of H.R. 2972, we found that it did seem to meet more directly, the grandfathering request from those graduates from the 8(a) Program. They thought a 10 year program would be a better program, one which they could perhaps get more opportunity.

So we would look for a perhaps 9641 coordinated approach to how you would deal with grandfathering or gray period that are currently in the program.

We think, as Mavroules does, that the option requirement is valid. We, as Mavroules did, agree that Conte was right; that the penalties ought to be high, and we applaud the $500,000 penalty.

Perhaps you will want to ask a few questions. We thought a lot about competition. We think competition with peers is important. One of the things that happened in the Mavroules/Conte Compromise is that they are permitting competition between two different stages. We think that could be dangerous, and we tried to build a turbin of all the various competition environments to try to think through which competition environment has what impact on what kind of firm.

Frankly, as I mentioned to one of the staffers earlier, it is the case that we're finding questions coming from both sides of the community now. Small businesses are wondering what's going on with this 5 percent program, and what does SBB-satisfied mean. 8(a) companies who try to understand what impact does SBB contract have on them, because in some areas, they might have had exclusive opportunity to reach for 8(a) contracts whereas now they may not.

We at BCP would stand ready to give additional testimony or whatever is your pleasure, sir.

[The prepared statement of Dr. Daniels follows:]

TESTIMONY

OF

ALFRED C. W. DANIELS

On Behalf of the

BLACK CORPORATE PRESIDENTS OF NEW ENGLAND

Before the Subcommittee on

Urban and Minority Owned Business Development

September 2, 1987

9:00 a.m.

STATEMENT OF

BLACK CORPORATE PRESIDENTS OF NEW ENGLAND

Before: Senate Small Business Committee, Sub-Committee on Urban and Minority-Owned Business Development

Subject: The Small Business Administration's 8(a) Minority Business Development Program and Possible Legislative Proposals to Reform the Program

Date: September 2, 1987

Mr. Chairman, I am Alfred C. W. Daniels, President of HH Aerospace Design Co., Inc., and a former President of the Black Corporate Presidents of New England.

It is a privilege and pleasure to appear before this Subcommittee on behalf of the Black Corporate Presidents of New England (BCPNE). This time it is more so than usual because it is an opportunity for the BCPNE to provide testimony on the 8(a) Program and the various legislative proposals to reform subject program.

BCPNE is a business organization which represents a regional constituency and the interests of some 6,000 minority business in the New England region.

We have organized our statement in the following manner:

- 8(a) program background considerations
- PL 96-481 and progeny
- 8(a) graduates survey (S. Prt. 100-29) feedback

- HR 1807 minority business development (Mavroules)
- HR 2269 minority business opportunity (Conte)
- HR 2972 minority enterprise enhancement (Richardson)
- The Mavroules-Conte HR 1807 compromise
- BCPNE views on the reform proposals
- Conclusions and recommendations

8(a) PROGRAM BACKGROUND CONSIDERATIONS

The small businesses who actively participate in Federal procurement operate under the shadow of big business. Obviously, increasing small business involvement will help to perfect the government marketplace. Yet, the facts are that small businesses are still competing for 80% of the total number of government contracts, the procurement dollar share of which is but 20% of the total. The small business Research and Development market share is approximately 4%. These conditions suggested the use in 1967 of the Small Business Act 8(a) provisions as a basis for a minority contracting program. House Conference Report No. 96-1434 (Joint Explanatory Statement of the Committee of Conference) supports this view.

In House Conference Report No. 96-1434, the conferees stated their firm belief that a conscious and deliberate effort by the Government to decrease the share of the Federal procurement budget spent with large business concerns is the fundamental prerequisite for both increasing awards to small business and for securing an increase in the number and quality of contracts selected for the 8(a) Program.

Prior to PL 95-507 the 8(a) Program was described only in SBA Standard Operating Procedures. PL 95-507 took the primarily regulation-based 8(a) Program and gave it legislative standing. A careful analysis of the pre- PL 95-507 8(a) Program reveals that, despite the comparative success of this effective minority procurement program, the competitive development of portfolio firms was often brought into question.

PUBLIC LAW 96-481 AND PROGENY

Public Law 96-481 (October 1980) and particularly its implementing regulations changed the relationship of 8(a) firms to the SBA. Indeed, based on an interim rule the entire portfolio was placed on a fixed program participation term (FPPT) basis. The maximum length of time for an FPPT was established as 7 years. Obviously, the instant legislation will be compared to PL 96-481 as amplified by its final implementing rule. It is important to recall that the law required an FPPT, but did not establish a specified term of years.

8(a) GRADUATES SURVEY FEEDBACK (S. Prt. 100-29)

On May 12, 1987 your Committee on Small Business issued its report entitled, Survey of the Graduates of the Small Business Administration Section 8(a) Minority Business Development Program. This survey was catalyzed, in part, by the concerns raised subsequent to the full implementation of the PL 96-481 regulations. In fact, three times as many 8(a) firms graduated from the program in the 4 years following the law as had been graduated in the decade preceding the enactment of PL 96-481.

Several of the major findings of that survey provide useful feedback:

- The respondent firms taken as a group had not realized the hoped for results of the upcoming Aspen amendments (a fair proportion of each industry category).
- A majority of the firms were concentrated in construction or related fields and janitorial services and maintenance.
- Most respondents viewed the 8(a) program as a contracts program but sharply criticized it as a business development vehicle which would include management and technical assistance as well as contract support.
- Many firms reported that they exited the program without receiving the transitional benefits suggested by the memorandum of understanding between the SBA and the MBDA.
- A majority of the respondents felt that they did not have enough time in the program. Many firms felt the optimum length of time for participation should be 10 years rather than the FPPT-imposed original term of up to 5 years with a possible 2-year extension.
- Most respondents felt the program should be based on the firm's development rather than a number of years criterion.

HR 1807 MINORITY BUSINESS DEVELOPMENT (MAVROULES)

HR 1807 reintroduced the HR 3482 notion of program participation stages (PPS). Wisely, it grandfathers in all 8(a) firms participating at the time of enactment. However, it has already been reported in the Wall Street Journal that HR 1807 provides double the length of time a company could participate in the program (14 years). In fact, the use of 8(a) contracts is limited to a maximum of 8 years during the development stage and a maximum of 4 years during the transitional stage. Once the firm graduates to its mainstreaming stage (maximum 2 years), 8(a) contracts are not available. Moreover, a closer, more realistic analysis based on minimum program entry and a 10% annual increase in competitive competence would result in approximately 7 years of 8(a) contracting. BCPNE joined Congressman Mavroules at the news conference announcing the introduction of HR 1807 and subsequently provided supportive testimony before his Subcommittee on Procurement, Innovation and Minority Enterprise Development.

HR 2269 MINORITY BUSINESS OPPORTUNITY (CONTE)

HR 2269 revisits the pre-PL 95-507 concept of business opportunity. The bill disallows any grandfathering for firms that have participated in a government contract more than 5 years ago.

Mr. Conte's introduction of the bill states his firm belief that the way to reform and improve the program is to restore the original intent - to move it from business development back to a program of business opportunity. The bill allows any socially or economically disadvantaged owner of a Small Business the right to petition for 8(a) status. Firms certified for the 8(a) program would be entitled to compete for government contracts in a manner perhaps analgous to the DoD Small, Disadvantaged Business (SDB) Set-Aside program. This competitive juxtaposition with both civil agencies and uniformed services would remove the SBA from the process. The bill allows 8(a) participation for a maximum of 5 years from the award of the first contract or 8 years from certification, with no extensions permitted.

HR 2972 MINORITY ENTERPRISE ENHANCEMENT (RICHARDSON)

HR 2972 establishes a maximum ten year fixed participation term for all concerns in the 8(a) program. This putative legislation grandfathers in all 8(a) firms certified via PL 96-481 implementing regulations whose participation in the 8(a) program was in effect on January 1, 1987. The bill provides for codification of the Gallegos decision and a preferential three year withdrawal period from the 8(a) program. Moreover, the bill established a requirement that each federal agency with procurement powers adopt policies designed to increase 8(a) participation and achieve goals similar to the DoD 5% goal.

THE MAVROULES-CONTE HR 1807 COMPROMISE

The Mavroules-Conte amendment in the nature of a substitute for the original HR 1807 was reported by the previously mentioned subcommittee on July 28, 1987. The bill as rewritten deletes the detailed, specific criteria of competitiveness and, instead, directs the SBA to establish objective "competitive criteria". The bill's 9-year participation period introduces competition earlier (15% during the 4-year developmental participation stage), and intensifies competition in the latter stages (3-year transitional period - 40%, and 2-year mainstreaming period -

100%). Thus, a balance is struck between HR 1807 which provided a longer, less competitive participation stage and HR 2269 which was a totally competitive program of shorter duration. A qualified grandfather clause is included in the redrafted bill.

BCPNE VIEWS ON THE REFORM PROPOSALS

BCPNE analysis of the sundry proposals has been accomplished in light of the relevant background considerations and the feedback provided by the excellent Senate survey of 8(a) program graduates. The following views are highlighted:

- BCPNE support for HR 1807 is only slightly diminished by the Mavroules-Conte Compromise.
- BCPNE regards the HR 2269 Business Opportunity Concept as an undesirable competition-intense return to the pre- PL 95-507 ambiance.
- HR 2972 contains the best grandfather provision and captures the spirit of the survey recommendation relative to length of program.
- BCPNE supports the requirement that disadvantaged owners, via assurances made prior to award, vouchsafe their intention to maintain ownership and control throughout the period of performance.

CONCLUSIONS AND RECOMMENDATIONS

BCPNE has concluded:

- The Mavroules-Conte HR 1807 Compromise will strengthen the current legislation by removing politics from the program and strengthening the business development aspects of the program.

- If administered properly, the amended HR 1807 legislation would go a long way toward preventing further abuse of the program.

BCPNE recommends that the Senate grandfathering provisions be a PL 96-481 coordinated approach that serves to protect the interests of the approximately 3,000 extant 8(a) portfolio firms.

Moreover, BCPNE calls the Sub-Committee's attention back to the commentary attached to the regulations catalyzed by PL 96-481 which referred to the "life-cycle of the new enterprise". That paradigm expanded life-cycle was drawn from the SBA sponsored-Casey Report on high technology firms. Our constituency believes that the promise of the upcoming Aspen amendments (effective date 01 Oct 87) and the DoD 5% goal (04 May 87 Fed Register) obviates any earlier suggestion that 8(a) portfolio firms should not anticipate the life-cycles of that ambiance.

Mr. Chairman, this concludes our testimony and I welcome the opportunity to answer any questions that you may have.

Senator **Kerry**. Thank you very much. I appreciate that. The question of competition raises, obviously, a lot of issues; a very complicated one.

I wonder if I could ask Ms. Santiago and John Cruz to just comment for a moment on what they perceive as the impact of competition on their businesses where you've been—I know it's conjectural, because we can't say specifically what the framework is at what point in time and at what level. But, in principal, do you have a sense of that?

Ms. **Santiago**. When I originally went on the program, I didn't know what sole-source contracts were. I was enlightened by one of my clients, as a matter of fact.

I have always been in competition with other 8(a) companies, and it may just be the nature of the work that I do, but I found that originally I didn't like it because once I found out they could give me a sole-source contract I said I would much rather do it that way because it will be faster, and I could get down to do the work rather than spend months working on proposals. I have since turned around to feel that I think the competition was really important. Most of the time I was competing against one or two other 8(a) firms, and I really feel that that taught me how to prepare proposals; how to budget in a way that was competitive with other people. It taught me how to negotiate. And, as I started doing more competitive work with non-8(a) Program types of contracts, other Government agencies and with the private sector, I found that that knowledge I had gained was really crucial because I could never have been able to prepare the kinds of proposals that were required by the Government agencies, especially had I not had to do them at the same level as if they were non-competitive contracts.

Senator **Kerry**. So you don't see it as potentially invading the developmental purpose of the program?

Ms. **Santiago**. I don't. I think as long as you're competing against your peers, as the gentleman said, I think that it's really beneficial. And, I think that perhaps one thing that could be done is that before you get sent up there to send in proposals that you get some training on what a proposal is. The first package I ever received from a Government agency, an RFP was daunting. It was like 150 pages, and at the very end of it there was a 4 page—I don't know how many—300 line budget that I had to figure out on my own. I had never seen it. Nobody ever told me how to look on this, and I basically had to teach myself how to prepare these budgets and how to prepare these contract proposals to fulfill the requirements all the Government agencies demand. And if I hadn't done those first 8(a) competitive contracts, I don't think I would be able to do them for noncompetitive work because they are an incredible amount of work and they require a real level of skill that I don't think most companies have.

Senator **Kerry**. John, what would you add to that, if you want to?

Mr. **Cruz**. Well, I think that's what the American system is all about; competitiveness. I do think that you're trying to help a young emerging company. The program should be designed to give them somewhat of an easier job getting this sheltered market. So for some of the smaller firms, I think if they are competitive they should be able to negotiate. Again, I don't know what the cutoff point is, but in construction, let's say, until a firm is large enough to have their own estimating staff, some people are—like we all were—operating out of the kitchen table or the dining room table when you first start out. That type of firm shouldn't be required to compete. You should try and help that type of firm. And then, when a firm starts growing at a certain competitiveness—I know at one time that the 8(a) Program tried, a number of years back, and we competed. For some reason it was never reintroduced, but I don't think any of the people who did compete felt that they were at a disadvantage because they were all 8(a) firms. Again, the same relative size. And that's the danger. You don't want to get a more sophisticated firm bidding against someone who is not as sophisticated so that some of the unsophistication can come up in the negotiating stage. See, if they incorrectly put their bid together, at least in the negotiating stage at the agency and the SBA, that can come to light. Under a straight competitive bid, that firm would be out of it. That's why I'm saying, I think it should be done in a two-tier stage.

Senator KERRY. What do you think of the proposition that's been put forward as sort of a cut-in series, sort of a 2-4-6, or whatever it's going to be, of cutting it in at one point along the road? I take it that's what you're saying?

Mr. CRUZ. I would agree with that.

Senator KERRY. Now, what would you say is the greatest, the most positive impact of the 8(a) Program as it was currently structured on your business?

Mr. CRUZ. When we were really unable to obtain work in the private market, that's when I found the SBA being that crutch that we needed. And I think that's the best example of the program working because it didn't take us out of the competitive market. It just helped us stay in there. I think that was the best.

Senator KERRY. Can you make a conclusion as to where your company would be without the 8(a) Program?

Mr. CRUZ. We would be successful. We wouldn't be as successful. I can't put it on a sliding scale, but I can tell you that our bonding capacity wouldn't be the same because the jobs were profitable and they helped build up our retained-earning base. And again, as important as that, they came, a lot of them, at times that we might have been forced to cut back. We were fortunate enough to have a base in a minority community so we didn't go in and use the program that much, but when that base wasn't there, we found that that was a place we could go.

Senator KERRY. Esmeralda, I want to ask you the same question. Where would your company be without it?

Ms. SANTIAGO. I think—I'm not sure. I think it was so frustrating to be in business before I learned about the program that I was considering just, you know, just kept running against Harvard MBAs and I considered just stopping and going to school and, you know, spending another $50,000 and another 4 years before I could be a successful entrepreneur. And I think if the program hadn't been there I might have done that, and I probably would still be in school trying to get through and to pay for it. But I think that the program helped me to be a business person. I really think that I had the desire; I had the drive and the ambition, but I didn't have the skills. And it really acted as on-the-job training for me, so that now I feel like I could go out and start any business because I know what all the—heartache is all behind me, and I think I'm better able to deal with it now. And I think that the experience I have is something that I think I learned a lot faster by virtue of having been in the program and having to respond very quickly to my clients and having sort of being pushed out there to market my services.

Senator KERRY. What would you say are the greatest strengths of the program?

Ms. SANTIAGO. Well, in my case, I think the protected—the protected 8(a) status was very strong and very important to me. And within that, the competitiveness with other 8(a) companies, because I never felt like I was getting a handout. I always felt like I was really fighting for this contract, even though I was fighting against my brothers and sisters. I really felt like, you know, they didn't just call me up and say, "I'm going to give you $200,000." They would say, "You have to work for this contract," and it was very self-satisfying that I was able to compete even though I had a limited knowledge, at that time. I just had the desire and the drive. It was very exciting for me to be able to do that. And so, I think that that competitiveness was a strength for me, as awful as it was and as many hours sleep as I lost over it.

Senator KERRY. What about the greatest weakness?

Ms. SANTIAGO. Well, I think, in my written testimony you probably have seen some of it. I really think there needs to be some confidentiality in the way that the specialists deal with you regarding your clients. Because, I ran into two instances in which clients of mine were given away, and that's not a really nice thing to look back on. As nice as those people have been, you know, I really don't think that that was very ethical. So, I think with that, that needs to be worked on.

I also think that there really needs to be some thought toward quality control. I, you know, every 8(a) company that I have run into is really serious about being a business; they're really serious about behaving as business people. But I keep hearing stories about 8(a) companies that are less than that, and I have seen the work of companies that just don't have the same approach. And I think that somehow those people need to be weeded out. I don't know what the process would be, but I think it makes it difficult for those of us who are legitimately interested in being in business to sell our services, if every time that we go to a client we have to sell the program.

Senator KERRY. Now, if you were required to enter into an extra 8(a) outside of 8(a) competitive status within, say 4 years, or within some timeframe. Let's say it's 4 or 5 years or something. In order to not have a situation arrive where when the 8(a) eligibility is over, people are suddenly sitting there stranded without any outside sources of income, competition, would that be a burden if it was sort of staged in that you got into that competitive status outside of your brothers and business.

Ms. SANTIAGO. If I hadn't been competitive with them, I think it would be. At this point, we are due to graduate within about 1½ years. And I've known that this was going to happen for the last 3 years. So I've been planning for it. And what I have been doing is very deliberately not going after 8(a) contracts because even though everybody says you should go after an 8(a) contract and try to get a multi-year contract so I can have 6 or 7 years down the road, and I just feel like it's counterproductive to what I want to do as a businessperson. I really want to be respected for my business; my ability. And I really think it's important for me to compete in the world-at-large.

Senator KERRY. Well, you obviously have a terrific amount of initiative and of, you know, ability to discern your needs more so than some of the folks you referred to. I think in your own testimony, where you talked about complacency, and I think the question that we have to ask as we form a response to the problems in the legislation, is how do we—how do we institutionalize for some of those who aren't willing to be—or who just aren't inherently as occasious as you are about it. How do we structure that? Do we require that 25 percent of the business after 3 years or 4 years has to be from outside sources and structure it formally that way?

Ms. SANTIAGO. I believe that that's necessary. Because I think that that will give you—whether you have the drive or not to begin with, it's going to give you the drive to do it. And I really think that there needs to be—but I do believe, though, it has to be on an individual basis. I think some companies need longer to be established than others.

Senator KERRY. Who should be the arbitrator of that? Who should decide that maybe there's a waiver program or something and you have 1 year——

Ms. SANTIAGO. I don't think a Government agency can do it, because it's the marketplace that decides that, and I really think that there needs to be a real input from people who are out there in business advising or even making that determination.

Senator KERRY. An independent review board that might pass on waivers or something?

Ms. SANTIAGO. I strongly believe that that's—I think they should review the so-called FPPT. They are the ones who should determine whether a company is ready to graduate or not. I don't think the SBA should do it, because those people are in their office 9 to 5. They don't see the business environment. They don't know—I mean, with all due respect, I'm out there hustling——

Senator KERRY. With all due respect——

Ms. SANTIAGO [continuing]. I'm out there hustling every day, and I think I know more about the business environment than they do. And, I think the people who are involved in the same struggle are also in the same position. So, I think that they are much better able to make that determination.

Senator KERRY. John Moffitt is going to go back to Washington and tell all those deadheads that.

Mr. MOFFITT. The fact the Government may not know what it's doing is something that's been said by someone in my party once.

Senator KERRY. That's true. That's very true. We've now adopted it and co-opted it, because it's been proven true by yours, but that's all right.

John, you said something that kind of interests me. I want to get at it a little bit, if we can. You talked about the frustration of your efforts to reach out to those—to the large firms, and that you had really almost given up in that effort. What's the problem out there?

Mr. CRUZ. The—it's still prevalent in the industry, at least as far as contracting is concerned, that minority contractors aren't capable; come under suspicion. We have not been able to crack and try to aggressively market to some of the—again, the Government contracting 14-500 companies to get on a selected bid list. And we're just faced with frustration. In fact, we don't do it anymore. They were very polite, and that was about as far as we got. And it was from their belief that a minority contracting firm did not have the capabilities to provide whatever building they needed on time or for the price or whatever it was. So that's one of the things I think that you really have to look at when you're talking about graduating. A firm is the market there. And I do believe that water seeks its own level; that it's not going to work for everybody. If you're in there an extended amount of time and you've got some business toughness about you and tenacity, that you'll make it. You may not be as successful as you want to be because you're a minority, but you will make it. So I think the—the emphasis I would like to put on it is having somebody really do an education job with the people 495-507 or put some enforcement in it, some penalties, and let people know that somebody is watching them very closely to see that that mandate is carried out. Because right now, it's a joke.

Senator KERRY. Well, I'm glad you called that to our attention. I think it's something that we ought to look at a little harder. I'm not too sure, exactly, what we do about it, but do you think—I think, asking you a heated question—is it simply a matter of perception about inability or is it something a little deeper than that?

Mr. CRUZ. It's racism. I think that's what it boils down to. There's no other way around it. We can provide them with a financial statement that shows——

Senator KERRY. I see you have not made a controversial statement.

Mr. CRUZ. We can show them a financial statement that shows them an adequate net worth. Again, our bonding is up around $30 million, with our largest job. Banks to the SBA was almost $15 million, and yet we can't even get invited to bid $2 million jobs for some of these major corporations. They'll send us the plans to do a $2,000 or $20,000 rehab job, and our overhead can't take that. So again, we just completely changed our market. And it's not only my firm, it's a lot of firms. I will say that the 8(a) Program, again, from my association with the local contractors association, the national has been very instrumental in getting people accelerated. Again, in our business it's that net quick, it's to retain earnings. And the 8(a) Program has been very successful in getting contractors even if they might have taken a dive after they left the program. At least they got their net worth up to a capacity that they didn't go out of business. They might have even taken a dive. So I think it's been extremely helpful to the minority contractors.

Senator KERRY. Dr. Daniels, do you want to add anything at this point, before we begin to wrap up. I don't know if the colleagues here want to ask any questions of this panel, at this point. Did you have anything you wanted to add to the comments that have been made?

Dr. DANIELS. Yes, very much so. You seem to be questioning on the point of competition within or without the program, and obviously, we are in a day in which we are looking at—now, for the first time, catalyzed by P.L. 99-661, the 5 percent provisions, and the result of it. FTC sets-asides, all dispatch set-aside. We, it turns out, locally, are—some of the people in the room think they are going to beat me on the first 1 year in New England. At any rate, it is the case that this program provides, for the first time, competition without the 8(a) Program. And, of course, all of the House bills suggest varying amounts of competition within the program. And, as you know, a year ago Congress asked the DOD and the SBA to look at it—the same subject, the competition within the 8(a) Program.

I would have to agree with my other panelists that this peer competition is critical and, perhaps at low percentages, initially. I certainly would agree with Mr. Cruz that before you have the estimating talent you certainly can get into lots of difficulties relative to trying to bid against others.

One comment that's commonly heard among our BCTE client companies, and I think Mr. Cruz alluded to it, also, is a thing that can happen very easily is that one finds that they have to keep sharpening their pencil until they've now won a no-win contract. So the 8(a) contract does permit, to the extent that there is some safe harbor there, an opportunity to gain these skills before one reaches this point of either negotiated or open-bid type of competitions.

You asked earlier about this region and sort of put Mr. Moffitt, who used to be in this region, on the spot relative to how they were doing relative to others. One of the things that our clients are quick to say is that we have found it beneficial to be in this region. We are aware of the difficulties and the problems that are created in other regions, and I think, you know—I know of no client coming to BCPNE that isn't at least partially pleased that it is in this region, like some others. This region has had a good record. It has been very supportive of its companies, and obviously, we are a long way from the armada in Washington, and yet we could have done our proportionate share of the business.

The—it's interesting to note, as one talks about, you know, competition and vehicles by which one can——

Senator KERRY. Let me just ask you, the reduction of $70 million over a short period of time—what is it, a year or something like that—doesn't bother you?

Dr. DANIELS. I think it is the case that one has to trace that along with the historical template of having moved out of business opportunity to attend the business development——

Senator KERRY. Let me just make clear that that's not a decline in comparison to Region III. That's just a real decline of $70 million here in 2 years.

Dr. DANIELS. Well, any region must follow the policies created in Washington. And some of these policies were created before Mr. Moffitt got there, so we can't blame him.

Senator KERRY. Let me make something very clear. This hearing is not trying, and I'm not trying in any way whatsoever, to blame anybody. I think, you know, we get totally wasteful if we start pointing fingers and looking for blame. And I know full well that John Moffitt is respected. He's done a good job up here. The people think he's been available and accessible, and there's no effort to try to say that he has been insensitive. It's part of the problem. It's an inherent institutional problem here that we're trying to deal with. But, I am suggesting that when you have as small a percentage and as many people—you know, when you have 1,500 firms that don't get anything, who are certified 8(a) eligible, and you've got 1,400 firms that wind up with 45 percent and 100 firms—something is wrong in the distribution process, and when I see—when I see a $70 million reduction in an area where firms are certified, I don't see the kind of pro-active effort that says to me, you know, we're really trying to put it out there.

Dr. DANIELS. It is clearly troubling, the $70 million drop. But perhap there's a way to look at it that is instructive. It is the case that the SBA in the person of earlier—Mr. Cardina has administrated—believe that one could carve the 8(a) Program with the utility of adding a large number of firms to the program and getting rid of, if you will, companies that have been in the program for a long period of time. It was also suggested that before this happened, it was called in our ambivalence, the Valentine's Day Massacre—before this happened, it was believed that the business that was had by those firms who had been a long time in the program were transferred to other 8(a) Programs. Many of us never believed that. The facts are in, and the $70 million attests to it. In fact, the 1,400 firms or 1,300, what have you, that are over the last 10 years, had no contracts in the 8(a) Program, attest to the fact that there are a family of firms who did better and who were going to get the business because they had walked through. As a fellow panel member suggested, the slow stages of getting small businesses to finally gain the confidence of the various agencies, they were then trusted. 8(a) was a way to get the contract fast. And so once they had built their reputation, they were used. They were used, probably to a fault. But it is the case that once they left, the volume never returned to the program. That's part of the $70 million.

Senator KERRY. Let me—do you want to ask any questions before we end off with this panel?

Let me ask this: Would any of you like to ask Mr. Moffitt a question that would be relevant to how we might proceed to fix this or something you're confused about the SBA administrative process?

Mr. CRUZ. I would just like to be emphasized on the construction part. I think they should emphasize to—maybe it works for the other industries, and I imagine it would, but again, it would be a perfect way of softening the blow of leaving and trying to penetrate the market and giving a smaller 8(a) firm that, so the big brother partner to work one, two or three jobs with them. I think that's one thing we really should concentrate with both parties.

Senator KERRY. Well, I want to thank you, all of you, for your testimony. It's been very, very articulate, extremely helpful, I think, to a point, and will help us in the process of trying to proceed from here and opens up some very, very helpful suggestions.

And, you know, when your eligibility is over and you need some media, I'm here. I need some help from you. Thank you very, very much.

If they would take their seats, we have one more panel for those of you—if Dr. Edison and Mr. Joseph Harris and Ms. Joyce Foster would take their turn?

We have one more panel, and the first witness from this panel is Joseph Harris. Mr. Harris is the manager of the Minority Business Development Program at Polaroid in Waltham. That program has been designed to incorporate minority business participation throughout Polaroid. And in this respect, Mr. Harris has worked with 8(a) participants over the years and due to his efforts, Polaroid was recently cited as one of the top 14-500 companies in assisting minority suppliers.

Then, we will hear from Dr. Kenneth Edison who is the director for the Minority Business Training Center right here at Roxbury Community College. Through the center, Dr. Edison has directed training efforts to assist minority-owned business enterprises throughout Greater Boston, both for students at Roxbury Community College, as well as individuals who wish to become or are currently involved in minority business efforts.

Finally, we will hear from Joyce Foster, who served as the director of education and training for the State Office of Minority and Women Business Assistance for the past 5 years. And in this capacity, she works with a number of 8(a) participants throughout the State in providing training and also developing assistance to minority-owned businesses and to women who own or operate businesses.

So, thank you [illegible] very, very much for being here with us today. Mr. Harris, if you would begin, I would appreciate it.

STATEMENT OF JOSEPH E. HARRIS, MANAGER, MINORITY BUSINESS DEVELOPMENT, POLAROID CORP., WALTHAM, MA

Mr. **Harris**. Thank you Senator, staff, and panel, members and family, and so forth. I would like to say one thing. I'm from a corporation, so my view is different from both the Government and the minority business view. But let me get into it.

In order to comment on the small business program, I first looked at the intent of the program as defined in some of the literature I got, and the intent, if we assume the intent is to help businessmen in small business become competitive, then we can deduce from some of the information that if only 166 out of the roughly 4,600 firms graduated, that the program is not a success.

Now, what I propose is some of the ways that we can look at the program in terms of the way a corporation would look at it, rather than Government, and what things could be done. I don't fine tune them. I've just got a broadbrush talk about them.

The first is analysis and evaluation. If we look at the failures in the program and not just count statistics, count companies that didn't make it. We look at the failures and find out why companies failed, then we can look at front-end loading. We can look at how we select companies to get into the program. If we look at the staff and decide that certain regions have a terrific track record, certain regions have a terrible track record, we can evaluate the staff. We can find out what it is about the regions that have an excellent track record that works, what it is about the ones that don't that works, and possibly standardize the process throughout the regions and have the effective people teach the methods and the ineffective people possibly be replaced or re-located.

Feedback is another essential piece. You can get feedback from not only the 8(a) companies, but the companies that aren't 8(a). Why aren't they 8(a)? How did they succeed by not being 8(a)? Why didn't they want to participate? And feedback from the staff. I'm sure the staff is closest to the problem and they know things that maybe aren't getting up the ladder. The second piece I look at is the 1980's mentality which should be today rather than the 1960's. I think when it was started, minority business—and I think it was started as a result of the riots—minority business was in its infancy. Minorities, particularly black, had been in business in the mom and pop grocery stores, the hair care, and so forth; that kind of business. Twenty years have passed. Minorities are sophisticated. There are criteria that could be used for evaluating people entering the program. Just the fact that you're a minority shouldn't be enough to get you into the program. There should be some education, some training, something you should bring to the party.

As far as matching contracts. I think this is a two piece—matching contracts with a commercial business. If you look at what happens when you're on the program, we've done business with, even, I would say, some of the companies in this room, that's Polaroid, before they entered the program. When they entered the program, business was really great and they didn't need Polaroid anymore, and then when they graduate sometimes it's difficult for them to find out how to get back with us. They lost that eye-of-the-tiger, so to speak. So there needs to be a way of doing it. And what I would propose is something we use in the grants, somewhat of a foundation. We do a matching grant type thing where—and the numbers can vary. But let's say the first year, in order to get a contract, 10 percent of your business has to be in the commercial. So if you want a $100,000 contract, you have to have $10,000 out there with a commercial company, or some commercial companies. And the next year would go to $20,000, $30,000, $40,000, $50,000 and then maybe after that point, if you're going to stay on the program, then you could add an additional non-8(a) Government business to increase that percentage. What that would do is, by the time you graduated from the program, you would have enough commercial experience in commercial business so that you would be able to make the transfer rather easily.

Some of the sort of innovative thing is that we look at companies that have failed. We could put together a process by taking over a failing business. Rather than just let the company fail, put a takeover together. Get some 8(a) participants that have some expertise, put a team together and let them buy-out. That's a thought.

And finally, an area which don't very much concern us, is the corporate participation. It's almost like we're excluded from the loop. One of the things that brings corporations—and it's just one of the things—is money. If we got a tax incentive for doing business with 8(a) corporations or 8(a) companies, we would love to do business with them and it would provide some incentive for us.

Again, joint ventures I think was mentioned once. We could structure joint ventures with a corporation in an 8(a) firm.

We have a minority firm that's looking at Polaroid now. They want to buy one of our subsidiaries, and we're trying to structure a joint venture where they will have majority control and we'll have the minority control. Our name will give them the credibility, but they will be making the product as the manufacturers.

Another way is allowing corporations to help by loaned executive programs. You talk about—I forget the number—7(j) or whatever as a consulting piece, but we do consulting. Other corporations, Raytheon, Deca, and so forth, they all do consulting with some of the minority businesses, and if you tied that to the 8(a) Program, we would be glad to lend our expertise and it would be very economical. It wouldn't cost you anything.

And the last piece I look at is, there are models that do work as far as training; starting business. General Motors has a minority dealer program, as do other automotive. And McDonald's has a dealer program where they start franchises.

Now, in the corporate structure, these programs have to work. They can't be like Government programs. If they don't work, you're out of business. And what the SBA should try to do, or I would recommend they try to do, is look at some of these corporate programs and copy them. They have to succeed and this way, the SBA could succeed.

Thank you.

[The prepared statement of Mr. Harris follows:]

Polaroid Corporation
400 Fifth Avenue
Waltham, Massachusetts 02254

Polaroid

TESTIMONY FOR THE SENATE SMALL BUSINESS COMMITTEE OVERSIGHT FIELD HEARING, BOSTON, MASSACHUSETTS - SEPTEMBER 2, 1987

By Joseph E. Harris - Manager of Minority Business Development, (617) 684-3434.

In order to comment on the SBA's 8a program one must first understand the intent of the program, determine if the intent is being accomplished, and further determine if the current method is the most effective way of reaching the desired goal.

The intent of the program is to "help disadvantaged small businesses become competitive. We can then deduce that if only 166 of the 4,598 participating firms graduated from the program as competitive business, the program's intent was not accomplished.

What I propose to discuss are methods which could be used to make the program meet the desired intent in a framework designed for the 80's and 90's.

The essentials of a working program would include the following:

- ANALYSIS AND EVALUATION
  - Analysis of Failures for Remedies
  - Evaluation of SBA Staff for Effectiveness
  - Standardized Regional Procedures
  - Obtain Feedback from Staff/Participants/Others
- 80's MENTALITY INSTEAD OF 60's
  - Something at Risk for the Entrepreneur
  - Requirement of EEO/AA and MBE Procurement
  - Match Contracts with Commercial Business
  - Takeover Failing Businesses
- PROFESSIONALIZE THE PROGRAM
  - Professional Development of SBA Staff
  - Required Participant Education
  - Management Team Approach
- CORPORATE PARTICIPATION
  - Tax Incentives for Corporate Participation
  - Corporate Loaned Executive Program
  - Corporate Joint Ventures
  - Private Industry Models

ANALYSIS AND EVALUATION

A lot of statistical data is accumulated of successes and failures in the 8a program. This data tends to be quantitative rather than qualitative. Companies that fail the 8a program should be analyzed to determine predictors of success. These predictors could then be loaded into the front end of the program to help structure for an increased success rate. An example would be if it were found that companies failed because they were undercapitalized, then the methods of calculating and estimating the amount of capital required should be reexamined. Extensive analysis such as this should do much towards reducing the percentages of failures.

The regional SBA staff also has ownership in the success of the program. Review of what works and what doesn't work should be conducted regularly. The batting average of the SBA staff should be continually improving as they gain experience. Those that are effective should teach the less effective, and those that are ineffective, (for whatever reason), should be reassigned to a position that will not impact the program.

Each Region seems to have its own autonomous rules. These rules and procedures should be compared to determine the most effective. The best should then be made the standard for the whole program. Regional comparisons can also be made, making adjustment for the economic and demographic variances, as a sort of report card for the Regional Administrators.

It is often said that those who know most about a problem are those closest to it. Feedback should be regularly obtained from all sources that may have some insight to the problems. These sources include participants, those who were not allowed in the program, graduates, staff, and most importantly those who chose not to join the program. One participant asked why only a chosen few get many contracts while some companies are in the program and receive no contracts.

80's MENTALITY INSTEAD OF 60's

The "sixties" mentality refers to the mood the country was in after the riots of the 60's. The government and private sector felt obligated to provide help of any sort to an under trained, less experienced, and less educated group of people. This was a sort of "welfare" mentality as much was expected to be lost without appreciable gain. Twenty years have passed and, while there are many people who are still ill-prepared, under educated, and lack experience - there also exists many of that same group that have the education, skills, and experience to engage in a successful business. Racial, and gender prejudice still are barriers to total equality, but now is the time for a hand up rather than hand out.

Anyone willing to start a business has to realize that there is risk to that endeavor. Program participants must have something at risk to feel ownership in the program. A person who has not any available equity to put into a startup firm has no business in business - desire is not enough. An equity requirement would make the potential entrepreneur think twice about walking away when he or she hit a stretch of bad luck.

Some minority-owned firms do not do business with other minority-owned firms and others do not employ any minorities, (especially in the higher positions). The 8a program should foster Equal Employment Opportunity, Affirmative Action, and Minority Business Programs as a requirement of participation. There is a lot of business available if minority firms would only purchase from each other.

One of the most important aspects of the 8a program that needs to change is the reality that 8a companies are dependent on the government. These companies abandon the private sector and then fail when they graduate from the program. I would recommend a method similar to the "matching grants" program. The first year a participant would be required to have 10% of the government contract amount in commercial business. The second year this figure would increase to 20%. 30% by the third, 40% by the fourth and 50% by the fifth. The remaining years would require a minimum of 50% commercial and another 10% per year of non-8a business, (government or commercial). Upon graduation the firm would have plenty of non-8a business to survive.

The 80's also is the decade of "takeovers". Participants, wanting to start an enterprise, either as individuals or teams can structure a takeover of a failing 8a business with SBA help. This will accomplish several missions, first the assets of the original company will not be sacrificed at a low price, secondly a lot of reinventing the wheel will not have to be done, and finally the first companies loss may be salvaged.

PROFESSIONALIZE THE PROGRAM

If the SBA staff are required to give sound business advice, they should be professionally trained to do so. There are many courses in local colleges in entrepreneurial studies and these courses should form the basis of the professional development. Additionally courses in education, psychology, sociology and business law should be required.

Education should no be limited to the staff. Persons desiring to participate in the program should meet some sort of standards of business skills and knowledge. The skills can be taught and should be taught in an accredited school or college. No person should be allowed to enter the program without first determining if he or she possesses to business skills necessary (either by experience or education).

Participants should be encouraged to work with each other to share risk, skills and obtain larger startup projects. These management teams could be structured by the SBA and set up in a way that a poor performing member of the team could be replaced.

CORPORATE PARTICIPATION

The private sector is as concerned about small disadvantaged business as is the government. While one way to to obtain compliance is by laws and regulations, another, perhaps more fruitful way is by participation. Because the private sector relies of success to survive, typically programs undertaken by the private sector succeed. There are many ways the private sector can participate - and tax incentives could be the carrot to encourage participation. The private sector could offer 8a firms contracts and receive some sort of favorable tax credit for the business they do with these firms.

Corporations often are anxious for their executives to get outside experience. Typically these executives are loaned to a non-profit agency or social service agency for a year and bring a great deal of insight to that agency. A joint venture between the SBA and a corporation could be formed with the sole purpose of developing local 8a companies. The leader would be the loaned executive and he or she would use the resources of their company and the government to assist the local 8a firms.

The private sector has many models of ways to start up and develop business. Many of the US automakers have dealer programs, where qualified minorities are trained and eventually start auto dealer franchises. The fast food companies, notably MacDonalds, has franchise opportunities and owner training programs. SBA could work with these type of firms and provide opportunities for their most promising clients. The private industry models work because they have to work - SBA should try to copy success.

JOSEPH ELLIOT HARRIS, C.P.M.
28 River Road
Weston, Massachusetts 02193

RESUME

OBJECTIVE To positively influence the direction of corporate America both economically and humanistically.

EDUCATION

NORTHEASTERN UNIVERSITY, Certificate of Advanced Stuties, (June, 1980)
Program for study beyond the Masters Degree level.

ROCHESTER INSTITUTE OF TECHNOLOGY, M.B.A. (August, 1976)
Dual Major - Marketing and Finance. Performed statistical research by computer, edited technical publications, and taught classes during Masters Program.

HOWARD UNIVERSITY, B.S.E.E. (February, 1968)
Majored in Electrical Engineering, and played an active role in many scholastic and social organizations.

OTHER

POLAROID CORPORATION, C.P.M. (May, 1983)
Certified Purchasing Manager - In house courses and outside seminars including Negotiation, DOS, Lotus 1-2-3, Data Based Systems, and Management Information Systems.

FORD MOTOR COMPANY, (1976 -1978)
Effective Negotiation Courses - Chester Karrass.

XEROX CORPORATION, (1972 - 1975)
Extensive in-house Technical, Computer, and Management Development Courses.

PATENTS 1970 Telephone Range Extender
1969 Illegal Dial Detector.

COMMUNITY Mattapan Community Health Center, Board Member
Polaroid Foundation, Member Education, Committee.
Puerto Rican Festival Committee, Member.

ARTICLES "Microcomputer Techniques for Minority Business Development", Capital Ideas, National Association of Purchasing Management May, 1985.
"Establishing a Minority Vendor Program", The Product Information Network, McGraw Hill, December, 1985.
"MBE Plus", Purchasing from Small and Minority Businesses, Business Laws Inc. January, 1987.

ORGANIZATIONS
Chairman Minority Committee, Purchasing Management Association of Boston - 1st Vice Chair Minority Business Development Group, National Association of Purchasing Management - Co-founder, National Association of Minority Purchasing Professionals - Board, New England Minority Purchasing Council - Board, Minority Engineering Advisory Board Penn State University, Commisioner - Martha's Vineyard Commision.

EMPLOYMENT HISTORY

POLAROID CORPORATION, (1978 to Present)

Manager, MBE Development and Purchasing Information Systems - Coordinate, develop, and manage programs to increase Minority Business Enterprise utilization and development at Polaroid. Establish training to create awareness of the need for MBE inclusion in all aspects of the Corporation's business. Market the people and skills of Polaroid's subsidiary Inner City Inc.

Senior Purchasing and Systems Administrator - Corporate responsibility for all Purchasing Systems, including Low Dollar Purchase Orders, Stockroom Ordering (25 locations), MRO contracts system, and Purchasing Management Reports. Eliminated Stationery, and EDP Supplies Stockrooms. Taught Seminar on Material Management and Purchasing Systems for the NAPM, at Babson College.

Senior Administrator Office of Business Equipment - Designed and administered purchasing programs and systems for over 300 copiers, 1,100 typewriters, and all other business equipment corporate wide from over 40 vendors.

Senior Administrator Fork Truck Fleet - Designed and administered special contracts for major material handling equipment including Time and Materials, Cost Plus, Fixed Cost Service and Lease/Purchase Contracts.

Senior Buyer - Engineering Support - Wrote and administered large dollar contracts for design and fabrication of prototype coating equipment. Monitored vendor for contract compliance, performance, schedule, and costs.

FORD MOTOR COMPANY, (1976 - 1978)

Production Buyer - Purchased production parts for Transmission Division. Fasteners, Springs, and Engine Bearings - $22M annually. Coordinated Minority Vendor effort for Transmission Division.

Vendor/Engineering Analyst - Performed value analysis using all elements of the vendor's cost to determine pricing and evaluate increases.

XEROX CORPORATION, (1972 - 1975)

Senior Manufacturing Engineer, Advance Manufacturing Engineer, Manufacturing Engineer - Responsible for Process Writing, Line Balancing, Test Equipment Design, New Product Manufacture. Established pricing of internally manufactured circuit boards.

STROMBERG CARLSON CORPORATION, (1968 - 1972)

Engineer I/II - Designed and Developed "state of the art" Telecommunications Circuits and Computerized Test Equipment.

Senator KERRY. Thank you. I think those are good recommendations.

Dr. Edison.

STATEMENT OF DR. KENNETH M. EDISON, DIRECTOR, MINORITY BUSINESS TRAINING CENTER, ROXBURY COMMUNITY COLLEGE, ROXBURY, MA

Dr. EDISON. Good morning, Senator Kerry, panelists and guests in our audience. Thank you for this opportunity to address you this morning.

My following remarks regarding the Small Business Administration 8(a) Minority Business Development Program are based, primarily, on my experience as the director of the Minority Business Training and Resource Center here at Roxbury Community College for the last 3 years.

The role MBTRC plays in the scheme of minority business and economic development agencies here in the city is one where we provide three major services to the minority business community in Greater Boston.

These services are:

No. 1, the provision of education and training seminars on issues related to business development.

No. 2, providing individualized business management counseling and technical assistance to MBTRC clients.

No. 3, conducting followup evaluation and research to assess MBTR training and counseling effectiveness as a means to modify and redesign services that can provide for our clients.

Included in providing these services is the identification and cultivation of additional resources and business development programs as referral sources for our clients. One such resource and business development program is the Small Business Administration's 8(a) Program. While on its face this program seems ideal for our counseling clients and training participants, there are a number of limitations which prevent our clientele from taking full advantage of this program's benefits. An outline of some of these limitations will serve to illustrate my perspective.

No. 1, over 60 percent of MBTRC clients are at the pre-venture or startup phase, and have been in business less than 2 years. As such, their business goals and objectives or even for many of the day-to-day business operation is not developed enough or in a state of readiness for this particular program. Also, many of these clients have not identified their markets, and do not have an established market.

No. 2, MBTRC's primary effort is to get people started in business. Once this is done, our next task is to identify other support mechanisms which will allow clients to maintain and ultimately further enhance their business ventures.

No. 3, many MBTRC clients—and I think this was alluded to earlier by Ms. Santiago—many of our clients have a problem with disclosure. Particularly, in terms of their finances and particular details of their business. Also, they are very intimidated by many of the forms and application processes, the review of financial statements, and this is a paramount fear. I think this is important to really look at when you start talking about developing and further enhancing minority businesses.

No. 4, the structure of the training and counseling is not designed to provide a carrot for the participants. An individual's self-motivation, enthusiasm, determination and entrepreneurial spirit is really the carrot that drives the program. I think that a number of people have mentioned that today, as well. Our primary function is one of education. And to that end, MBTRC participants, like true entrepreneurs must be self-motivated with a strong vision of where they want their business to go.

No. 5, what I would like to do is propose a solution. And again, I'm not quite familiar with all the nuances of the 8(a) Program. However, these comments are intended to provide some perceptual training work for the training and counseling that we do provide.

First of all, it is important that all of the local, State and Federal business development agencies, in a designated geographical area, coordinate their training, counseling, and technical assistance efforts. For example, we look at Boston as one particular geographical area, we look at Massachusetts, or we look at a region. The goal of these program activities is to be able to guarantee that some percent of all program participants will obtain contracts and/or other financial support which will further enhance their business venture. In other words, what we're talking about is that most of these programs do not provide a degree or certificate, or anything of that nature which will allow a person to go on to the next step of their business. So therefore, we need to consider these factors.

The following is a brief outline of how this might work:

No. 1, we need to determine which agencies are pre-venture, startup, referral, financial support or technical assistance entities. How do they fit in a well-defined, coordinated business development effort, again, within this particular geographical area?

No. 2, identify all potential and eligible businesses across various industries. It's important that some of the training and counseling become industry-specific. I think that was also mentioned earlier by Mr. Cruz.

No. 3, collect all information and data relevant to current and future contract opportunities for the businesses and the respective industries for which these businesses provide goods and services of products.

No. 4, evaluate and analyze all information by industries as well as the aggregate.

No. 5, structure and design training, counseling, and technical assistance programs by industry and targeted to the business development/contract opportunities in these various industries and by the types of business.

No. 6, actually conduct the training and provide other consultation services, making sure that some of these activities are general to business development but structured mostly so that the training and counseling is, again, specific to the industry.

No. 7, continue ongoing program evaluation and identification of followup support and procurement opportunities for successful program participants.

No. 8, continue ongoing activity with procurement offices in both the private and public sectors.

Finally, in conclusion, one major benefit which can potentially be achieved in a business development program structured in this way, is that clients will be provided with better opportunity for success because their training and counseling and other support has been industry-specific with contract opportunities tied directly as a possible outcome of their participation in the program.

Another benefit of providing ongoing training and counseling as a requisite for participating in such a program is that it will fill some of the gaps that have been mentioned by many of the 8(a) Program graduates. Namely, the transition from Government contract dependency to mainstreaming in the competitive economy at large. And the second point, finally, is creating realistic and achievable competitive business development opportunities in the domestic and international market.

Thank you.

[The prepared statement of Dr. Edison follows:]

Minority Business
Training and
Resource Center

Roxbury
Community
College

September 2, 1987

TESTIMONIAL STATEMENT: The Minority Business Training and Resource Center and the Small Business Administrations 8(a) Minority Business Development Program.

The following remarks regarding the Small Business Administrations 8(a) Minority Business Development Program are based on my experiences as Director of the Minority Business Training and Resource Center (MBTRC) at Roxbury Community College. These remarks are also intended to be on MBTRC's involvement and experience with the 8(a) program.

The role that MBTRC plays in the scheme of minority business and economic development agencies is one where we provide three major services to the minority business community in Greater Boston.

These services are:

1) Providing education and training seminars on issues related to business development. Among these courses include: pre-business planning, business preparation, financial management, bookkeeping and accounting and marketing and advertising.

2) Providing individualized business management counseling and technical assistance to MBTRC clients.

Dr. Kenneth M. Edison, Director

MA Small Business Development Center (SBDC)
625 Huntington Ave Boston MA 02115
(617) 734-1960, x-106/107

3) Conducting follow-up evaluation and research to assess MBTRC training and counseling effectiveness as a means to modify and redesign services for our clients.

Included in providing these services is the identification and cultivation of additional resources (financial) and business development programs as referral sources for our clients. One such resource and business development program is the Small Business Administrations 8(a) program. While on its face this program seems ideal for our counseling clients and training participants, there are a number of limitations which prevent our clientele from taking full advantage of the programs benefits. An outline of some of these limitations will serve to illustrate my perspective.

o Over sixty-percent (60%) of MBTRC clients are at the pre-venture or start-up phase, and have been in business less than two years. As such their business goals and objectives or even for many, the day-to-day business operation is not "developed" enough or in a "state-of-readiness". Also many of these clients have not identified their markets, and do not have an established markets.

o MBTRC's primary effort is to get people started in business. Once this is done our next task is to identify other support mechanisms which will allow clients to maintain, and ultimately further enhance their business.

o Many of MBTRC clients have a problem with disclosure of their business finances and/or operations. Because of the red tape, application process, review of financial statements etc., this fear of disclosure becomes more paramount.

o The structure of the training and counseling is not designed to provide a "carrot" for participants. An individual's self-motivation, enthusiasm, determination and entrepreneurial spirit is the "carrot" that drives the program. Our primary function is education, identification of other support resources, and follow-up to insure that our referral resources are responsive to client needs. MBTRC program participants, like true entrepreneurs, must be self-motivated with a strong vision where they individually attain the business objectives they have established for themselves.

A PROPOSED SOLUTION

It is important that all of the local, state and federal business development agencies, in a designated geographical area, coordinate their training, counseling and technical assistance. The goal of these program activities is to be able to "guarantee" that some percent of all program activity participants will obtain contracts, and/or other financial support which will further enhance their business venture. The following is a brief outline on how this might work.

o Determine which agencies are pre-venture - start-up, referral, financial support of technical assistance entities. How do they fit in a well defined coordinated business development effort?

o Identify all potential and eligible businesses across the various industries.

o Collect all information and data relevant to current and future contract opportunities for the businesses and respective industries for which these businesses provide goods and services of products.

o Evaluate and analyze all information, by business industry, as well as the aggregate.

o Structure and design training, counseling and technical assistance program by industry and targeted to the "business development/contract" opportunities in these various industries, and by the types of business. Note: Consultation and education assistance should be designed to obtain a measurable result, such as securing for the client participant in the 8(a) program, or a bank loan, etc.

o Conduct training and other consultation activities. Make sure that some activities are general but structure most to be industry specific.

o Continue on-going program evaluation and identification of follow-up support and procurement opportunities for successful program participants.

o Continue on-going activity with procurement offices in both private and public sectors.

One major benefit which can potentially be achieved in a business development program structured in this way the clients will have a better opportunity for success because their training, counseling and other support has been industry specific with contract opportunities tied directly as a "possible" outcome given their successful participation in such professional development training.

Another benefit of providing on-going training and counseling as a requisite for participating and a program designed like this will be to fill some of the significant gaps or program limitations cited by many 8(a) program graduates:

o Transition from government contract dependency to mainstreaming in the competitive economy at large;

o Creating realistic and achievable competitive business development opportunities in the domestic and international trade.

Respectively submitted by
Dr. Kenneth M. Edison, Director
Minority Business Training and
Resource Center/Roxbury Community
College

Senator KERRY. Thank you very much.
Joyce Foster.

STATEMENT OF JOYCE FOSTER, DIRECTOR, STATE OFFICE OF MINORITY AND WOMEN BUSINESS ASSISTANCE, ROXBURY COMMUNITY COLLEGE, ROXBURY, MA

Ms. FOSTER. Thank you, Senator Kerry and panelists. I'm very honored today to be able to present testimony for the State Office of Minority Women Business Assistance, of which I'm director of education and training.

As the Commonwealth's chief advocacy agency for minority business, we appreciate this opportunity to present testimony, because we have special interest in the Federal Minority Business Development Program. Among our responsibilities in Massachusetts is that of effecting business affirmative action programs. Notably the State purchasing and contracting program which was promulgated by an Executive order of Governor Dukakis in 1984. In the preamble of that order, the Governor reiterated the intent of his administration to promote and facilitate the fullest possible participation by all citizens in the resources provided by State government. He went on to point out that minority business enterprises frequently face inordinate problems in achieving economic status; that minority business enterprises are under-represented among the enterprises doing business with State government; and finally, that State government is one of the largest corporations, public or private, in the Commonwealth, has a special responsibility to ensure that all available services, programs, and resources are put to the best use.

The strategy that Governor Dukakis used to encourage the participation of minority business enterprise in the economic growth of the Commonwealth has been institutionalized in the Executive order, establishing the Minority Business Development Program which has mastered Massachusetts' response to the under-representation of minority business in the economic mainstream.

While the Minority Business Development Program shares some of the elements of the 8(a) Program, in that each establishes a purchasing and contracting program to foster economic development of minority business enterprises, there are some substantive differences between the two programs, and that's what I would like to focus on today.

Our written testimony includes some background on this program, and I think I'm just going to leave it at that, except to point out that before the establishment of business affirmative action programs, and we are able to document that the value of the number of contracts to minority businesses through State agencies was statistically insignificant, that the level of one tenth of 1 percent or one quarter of 1 percent, despite substantial State expenditures.

The experience of those agencies that we've mentioned in this testimony was typical of most State agencies. In the area of goods and services we requested figures from the State Comptroller's Office some—a little while ago, that show that in 1982 and 1983, total expenditures paid directly to minority business enterprise, and that would exclude subcontracts and would exclude the capital outlay budget, as well, were around $1.5 million.

In 1985, figures for the first full year under the—of reporting under the Minority Business Development Program, that figure had reached $31.8 million. Then, if you add expenditures of capital outlay and to subcontractors, those figures that we've been able to track, that total would near $61 million, a substantial increase.

We would stress that, unlike the 8(a) Program, the Minority Business Development Program is not a sole-source program. Participation is on a competitive basis with agencies and awarding authorities required to meet goals of at least 10 percent of the total dollar value of its construction contract, 5 percent of the total dollar value for contract supplies, commodities, and equipment, and 5 percent of the total dollar value of its contracts for services in awards to minority business enterprise.

For a number of reasons, and in a very short period of time, the Minority Business Development Program has achieved a level of success that, frankly, many had not believed possible.

First, we know that the era of best effort is behind us. With all the good will in the world, voluntary programs have fallen far short of acceptable levels of activity. While the Minority Business Purchasing Program is not a sole-source contracting program, it is a program with specific goals. Each agency must appoint a minority business coordinator, "highly placed person" to insure that the agency meets its MBE goal. At the beginning of each fiscal year, the agency must develop a written plan to show the total dollar value of contracts projected to be let during that year; percentage objectives that have been established; and the total dollar value of the contracts or subcontracts to be let to minority business during the year.

Agencies and awarding authorities must meet these goals. Exceptions to the percent requirement may be made, but only by permission of the monitoring agency; the Executive Office of Administration and Finance. It is the Executive Office of Administration and Finance, through it's special assistant to the secretary, that grants exemptions and monitors the activity of all of the agencies through quarterly reports that every MBE coordinator must submit. It is a demonstration of the seriousness with which this administration takes the program, that the monitoring function has been placed in that executive office, which is crucial to the operations of the State government, including that of affecting budget allocations, if necessary. The regulations governing this program establish a series of strategies or techniques that address the issue of maintaining a competitive bidding environment. Agencies are encouraged to use the following strategies:

No. 1, target some bid invitations to MBEs. This strategy does create a kind of a sheltered market for MBEs in the program since it sets a single contract aside for competition only among minority business enterprise. Use of this approach depends upon an identified cluster of minority businesses in a given industry.

No. 2, promote ventures between MBEs and non-MBEs.

No. 3, require prime contractors to subcontract a minimum amount of work on a project to MBEs. Minimum in this context, refers to a percent amount below which the prime contractor's bid will not be considered responsive. In the construction industry, this requirement has, to a large extent, resulted in the fulfillment of the 10 percent goal of contracting the MBEs. In addition, though, in the areas of goods and services, this technique has also resulted in increased sales to minority business enterprises. For State contracts over $50,000, the prime contractor for supplies, equipment or services, as well as construction, must submit an affirmative action plan to the awarding agency that includes a commitment to meet the goals of the program. So the goal is passed through to the prime contractor, and the amount subcontracted to the minority-owned business is counted in the total agency expenditure to MBE.

Taken together, the commitment of the Commonwealth from its highest office, the careful structure of the program, and the reporting and monitoring function, add up to a purchasing and contracting program that in the fiscal year ending June 30, 1987, showed total expenditures to MBE in each category of construction, $38,839,000; services, almost $51,000,000; and goods, $8,750,000 for a total of $98,563,585. This total exceeded the aggregate goal for the program for that fiscal year. Remember, the program is only 2 years old. As we noted earlier, there are clearly several substantive differences between this program and the 8(a) Program. Yet, there are also some similarities.

SOMWBA, the agency which certifies minority business enterprises and women business enterprises, uses many of the Small Business Administration's criteria for certification. We do not, however, apply a size standard, nor is there a graduation requirement built into the State's program. We see our program as an important tool for the economic development of minority business and look to the time when the numbers of certified MBE's are substantial enough to allow competitive bidding in ever increasing numbers of industries.

The establishment of the program in and of itself has, undoubtedly, contributed greatly to the pursuit of the goal through the steady annual increase in the number of SOMWBA certified companies. In 1983, SOMWBA showed 273 certified companies. As of last week, that number had reached 947; 41 of whom are 8(a) contractors. Moreover, between 1984 and 1985, SOMWBA statistics show a 77-percent increase in companies applying for certification.

Although the Minority Business Development Program in Massachusetts operates in a competitive setting, it does not do so without support.

SOMWBA staff includes a unit devoted to procurement and marketing activities, with substantial responsibility to assist agencies in developing new strategies for meeting their goals, as well as to provide information and assistance directly to our clients, as they seek to do business with the public market. Our education and training unit maintains a counseling and resource referral service and is the first line of response for assistance and information across the whole gamut of business development problems.

These are some of the things that we've done in Massachusetts. But we look forward to a partnership with the Federal Government. Based on our experience over the years, we would urge the Committee to improve and enhance the 8(a) Program, particularly through more thoroughly developed marketing assistance programs.

We would like to see an affirmative action buying program throughout all levels, departments, and agencies of the Federal Government. Such a program aggressively pursued, would have a timely significant impact on minority business. We would like to see a realistic phaseout program for 8(a) contractors that establishes consensual goals for increasing private sales and decreasing public sales until independence from the program is achieved.

We would like to see Federal legislation addressing the problems of bonding, financing, and capital formation. We would like the Federal Government to use the Community Reinvestment Act and the Federal Reserve system creatively to make capital available to small business, for most minority businesses are small. We believe that working together and using the immense resources of the State and Federal governments, we can develop new and innovative ways of helping minority businesses grow and prosper, and we look to you, Senator Kerry, and to Congress to help all businesses to reach their fullest potential.

[The prepared statement of Ms. Foster follows:]

TESTIMONY OF THE STATE OFFICE OF MINORITY AND WOMEN BUSINESS ASSISTANCE AT ROXBURY COMMUNITY COLLEGE

SEPTEMBER 2, 1987

Presented by:
Joyce Foster, Director
Education and Training

Senator Kerry, Panelists:

As the Commonwealth's chief advocacy agency for minority business, we appreciate this opportunity to present testimony to the field hearing of the Senate Small Business Committee, on proposed legislation related to the Small Business Administration 8(a) program.

We have a special interest in the federal Minority Business Development Program. Among our responsibilities is that of effecting business affirmative action programs, notably the purchasing and contracting program which was promulgated by an Executive Order of Governor Dukakis in March of 1984.

In the preamble of that Order, the Governor reiterated the intent of his Administration to promote and facilitate the fullest possible participation by all citizens in the resources provided by state government, and went on to point out that

- minority business enterprises frequently face inordinate problems in achieving viable economic status;
- minority business enterprises are underrepresented among the enterprises doing business with state government; and finally-
- state government, as one of the largest corporations, public or private, in the Commonwealth, has a special responsibility to ensure that all available services, programs and resources are put to the best use.

The strategy that Governor Dukakis has used to encourage the participation of minority business enterprises in the economic growth of the Commonwealth has been institutionalized in the Executive Order establishing the Minority Business Development

Program, Massachusetts' response to the underrepresentation of minority businesses in the economic mainstream.

While the Minority Business Development Program shares some of the elements of the 8(a) program, in that each establishes a purchasing and contracting program to foster economic development of minority business enterprises (MBEs), there are some substantive differences between the two programs, and we will focus on those differences today.

First, however, it might be helpful to review the level of minority business participation prior to state business affirmative action programs. We have data from the late 1970s and early 1980s that show that the numbers of public contracts and the values of the contracts that were awarded to minority business enterprises were at a statistically insignificant level.

For instance, in a report prepared by MASSPORT, predating the Executive Order, it was revealed that:

> "minority contractors have performed virtually no construction work on the Authority's construction program. The lack of participation of the minority contractors stems from systemmatic discrimination against minorities in the construction industry, including discrimination in employment and contracting. In addition, certain practices of the Authority, though neutral of their face, have had the practical effect of preventing the full and equal participation of minority contractors in the Authority's construction program and perpetuating the pattern of discrimination against minorities in the construction industry".[1]

---

[1] Minority Business Enterprise Participation 1979 Construction Program; MASSPORT, p.4.

The need for action was underscored by a tabulation of Minority Contractor Participation with MASSPORT which revealed that, during the period 1970-1978, only .04 percent of MASSPORT construction payments went to minority businesses.[2] Reports from other agencies yielded similar results: "The experience of other agencies coupled with the experience of the Authority support the conclusion that racial discrimination in construction employment has retarded the growth of minority business enterprises in the construction industry."[3] Further, although MASSPORT concluded that it had never intentionally discriminated against any minority contractors because of their minority status, it also determined that voluntary affirmative action programs had failed to increase significantly the level of minority contractor participation in MASSPORT purchasing and contracting.

---

[2] Id., p.6.
[3] Id., p.13.

The Division of Capital Planning and Operations (DCPO)--the agency responsible for capital outlay expenditures, had also shown figures for minority business of less than .01 percent. In fact, before the passage of legislation--in 1978--requiring that participation in state construction opportunities, only one company owned by minority persons had participated in state building contracts.

The experience of MASSPORT and DCPO in this period was typical of most state agencies. In the area of goods and services, figures from the State Comptroller's Office show that in 1982 and 1983 total expenditures paid directly to minority business enterprises (excluding sub-contracts) were around $1.5M.

In 1985, the first full year for reporting under the Minority Business Development Program, that figure had reached $31.8M.

Moreover, adding in expenditures for capital outlay and to subcontractors, the actual total neared $61M.

We would stress that, unlike the 8(a) program, the Minority Business Development Program is not a sole source program. Participation is on a competitive basis, with agencies and awarding authorities required to meet goals of at least 10 percent of the total dollar value of its construction contracts, at least 5 percent of the total dollar value of its contracts for supplies, commodities and equipment and 5 percent of the total dollar value of its contracts for services in awards to minority business enterprises.

For a number of reasons, and in a very short period of time, the Minority Business Development Program has achieved a level of success that frankly many had not believed possible.

First, we know that the era of "best effort" is behind us. With all the good will in the world, voluntary programs have fallen far short of acceptable levels of activity. While the MBPP is not a sole source contracting program, it is a program with specific goals. Each agency must appoint a minority business coordinator--a "highly placed person"--to ensure that the agency meets its MBE goal. At the beginning of each fiscal year, the agency must develop a written plan to show the total dollar value of contracts projected to be let during that year, the percentage objectives established, and the total dollar value of contracts or subcontracts to be let to minority businesses during the year.

Agencies and awarding authorities must meet those goals. Exceptions to the per cent requirement may be made, but only by permission of the monitoring agency, the Executive Office of Administration and Finance (EOAF). It is the EOAF, through the

Special Assistant to the Secretary, that grants exemptions and monitors the activity of all the agencies through quarterly

reports that every MBE coordinator must submit. It is a demonstration of the seriousness with which this Administration takes the program that the monitoring function has been placed in that Executive Office which is crucial to the operations of the state government, including that of affecting budget allocations, if necessary.

The regulations governing this program establish a series of strategies or techniques that address the issue of maintaining a competitive bidding environment. Agencies are encouraged to use the following strategies:

1) Target some bid invitations to MBEs. This strategy does create a "sheltered" market for MBEs in the program, since it sets a single contract aside for competition only among

minority business enterprises. Use of this approach depends upon an identified cluster of minority businesses in a single industry.

2) Promote joint ventures between MBEs and non-MBEs.

3) Require prime contractors to subcontract a minimum amount of work on a project to MBEs. "Minimum" in this context refers to a per cent amount below which the prime contractor's bid will not be considered responsive. In the construction industry, this requirement has to a large extent resulted in the fulfillment of the 10 percent goal for contracting to MBEs. In addition, in the areas of goods and services, this technique has also resulted in increased sales to MBEs. For state contracts over $50,000, the prime contractor for supplies, equipment or services--as well as construction--must submit an affirmative action plan to the awarding agency that

includes a commitment to meet the goals of the program. The goal is passed through to the prime contractor, and the amount subcontracted to the minority-owned business is counted in the total agency expenditure to MBE.

Taken together, the commitment of the Commonwealth from its highest office, the careful structure of the program, and the reporting and monitoring function, add up to a purchasing and contracting program that in the fiscal year ending June 30, 1987, showed total expenditures to MBE in each category of:

Construction	\$38,839,431
Services	\$50,976,350
Goods	\$ 8,750,804
Total	**\$98,563,585**

This total exceeded the aggregate goal for the program for that fiscal year.[4]

---

[4] Annual Report, Minority Business Enterprise Program (MBE) FY'86.

As we noted earlier, there are clearly several substantive differences between this program and the 8(a) program, yet there are also some similarities.

SOMWBA, the agency which certifies minority business enterprises (and women business enterprises), uses many of the Small Business Administration criteria for certification. We do not, however, apply a size standard, nor is there a graduation requirement built into the state's program. We see our program as an important tool for the economic development of minority business and look to the time when the numbers of certified MBEs are substantial enough to allow competitive bidding in ever increasing numbers of industries.

The establishment of this program, in and of itself, has undoubtedly contributed greatly to the pursuit of this goal through the steady annual increase in the number of SOMWBA-certified companies. In 1983, SOMWBA showed 273 certified companies. As of last week, that number had reached 947, 41 of whom are 8(a) contractors. Moreover, between 1984 and 1985, SOMWBA statistics show a 77 percent increase in companies applying for certification.

Although the Minority Business Development Program operates in a competitive setting, it does not do so without support.

SOMWBA staff includes a unit devoted to procurement and marketing activities, with substantial responsibility to assist agencies in developing new strategies for meeting their goals, as well as to provide information and assistance directly to our clients as they seek to do business in the public market. Our Education and Training Unit maintains a counseling and resource referral services, and is the first line of response for assistance and information across the whose gamut of business development problems.

These are some of the things that we have done in Massachusetts; but we look forward to a partnership with the federal government. Based on our experience over the years, we would urge the committee to improve and enhance the 8(a) program through a more thoroughly developed marketing assistance program.

We would like to see an affirmative action buying program throughout all levels, department and agencies of federal government. Such a program aggressively pursued would have a timely significant impact on minority business. We would like to see a realistic phase out plan for 8(a) contractors that establishes consensual goals for increasing private sales and decreasing public sales until independence from the program is achieved.

We would like to see federal legislation addressing the problems of bonding, financing and capital formation. We would like the federal government to use the Community Reinvestment Act and the Federal Reserve system creatively to make capital available to small bsuiness--for most minority businesses are small. We believe that working together and using the immense resources of the state and federal governments, we can develop new and innovative ways of helping minroity businesses grow and prosper, and we look to you, Senator Kerry, and to Congress to help all businesses to reach their fullest potential.

-end-

Senator KERRY. Thank you very much.

Can I just ask you a quick question? You said $51,000 in services?

Ms. FOSTER. I think I misspoke. $51 million.

Senator KERRY. $51 million in services?

Ms. FOSTER. Yes. Those figures are all million dollar figures.

Senator KERRY. What's the total State procurement in goods and services? Do you know what percentage that now amounts to?

Ms. FOSTER. I don't.

Senator KERRY. You don't know it? Do you know what the total procurement is?

Ms. FOSTER. I could get that figure for you, Senator. I don't have it in my head.

Senator KERRY. I was just curious.

Mr. Moffitt. The State total procurement problem is approximately—$51 million is 5 percent of the total.

Ms. FOSTER. Yes. We could play it out because $38 million—yes. That's right. It would be $380 million in construction. It would be $200 million in services and $24 million in goods.

Senator KERRY. Let me come back, Mr. Harris. You made some interesting suggestions with respect to the Polaroid model and transferral.

Do you think that the—and you suggested that the SBA model, itself, on what the private sector has done in each of those areas—is that easily transferable? Is that immediately transferable from the private to the public, given some of the problems?

Mr. HARRIS. I think it is. If you look at some of the models for success and just either merge with them or copy them. I think it's probably easier to merge with them.

Senator KERRY. Give an example, if you would?

Mr. HARRIS. If you look at what it takes to start, let's say a McDonald's franchise, and then you take an entrepreneur that comes to the 8(a) Program and seems to have the credentials to get into the McDonald's franchise but lacks the capital resources, the SBA could fund some money that way to set that up. The same with automotive dealerships. They are no longer looking for 20 years experience in automotive. They are looking for someone who understands business and then has some capital.

So, I think finding a qualified entrepreneur isn't difficult. Finding a qualified entrepreneur with capital is difficult. And I think the SBA could help in that respect.

Senator KERRY. What you're really suggesting is not so much the evaluative counseling/training competitiveness of it, as you really are the capitalization part?

Mr. HARRIS. Yes. When I said, "thinking of the 1980s," there are, I think, a lot of capable people. As someone once mentioned, there are a lot of Harvard MBAs around, and so forth. There are a lot of MBAs around. What's stopping people is their capital. You know, going to the banks and trying to get the money. It's tough to get.

Senator KERRY. Now, you've also worked directly, though, with the SBA process?

Mr. HARRIS. I've worked with 8(a) firms, yes.

Senator KERRY. Do you have a perception from the firms that you've worked with, that there's a generic problem within the SBA that you think could be cured? I mean, is there a weakness that keeps blaring out at you that you——

Mr. HARRIS. Yes. The weakness I would see, aside from maybe the management of the operation, or the technical—let's say the business technical expertise of the people—is that the—when the firms are bidding on Government business, it's one process. They review sheets; they answer questions like that. When they graduate from that and they come to a Polaroid, for instance, they come to me and they say, "What does Polaroid do?" And that's not how we do business. We don't send out bids. They have to already be an expert in the field that we happen to be looking in, and it's—they can't tell us, "We do everything." That's the frustration. It takes them about 2 years to get over that.

Senator KERRY. That's the single thing that really leaps out at you that you think needs to be addressed?

Mr. HARRIS. I think so.

Senator KERRY. Dr. Edison, looking through your recommendations, you suggest that we collect information; we've got to evaluate; we've got to conduct training; do consultation; do evaluation. There are a lot of sort of active collection, evaluation, analysis, consultation. Who's going to do that? I wasn't clear on where that's going to happen and how directly that's going to impact the program?

Mr. EDISON. I think the local State and Federal agencies in the geographical area that's identified.

Senator KERRY. Who would have primary responsibility in that?

Mr. EDISON. Well, if you take, for example, what Joseph Perez' office is proposing now with the Minority Business Development Program, I think that's an idea that's going in that particular direction. Right now, most of us have informal working relationships and a proposal such as his, I think, would begin to structure—provide that structure that everybody's been talking about today.

Senator KERRY. Are you suggesting that that should also surplant the current consultation process?

Mr. EDISON. No, no. The consultation, to me, is different than the working relationships. The consultation is an activity that would be provided by the structure. In other words, the staff that's provided in this particular structure, or entity, if you will.

As I said, the important thing is that while we now have informal relationships that may work for individual clients, it's still not a formalized relationship that helps the majority of the clients.

Senator KERRY. Any of the panel want to ask any questions at this point?

Mr. WOO. I don't want to ask a question. I just want to make a statement.

Senator KERRY. Why don't we start off with you?

Mr. WOO. I'm pleased to be part of this program and——

Senator KERRY. For the record, just let me say this is Davis Woo.

STATEMENT OF DAVIS WOO, PRESIDENT, CHINESE CONSOLIDATED BENEVOLENT ASSOCIATION OF NEW ENGLAND, BOSTON, MA

Mr. Woo. When I was asked to participate, I really didn't know what my role was going to be. In fact, some of the things that I have to say, I might be better off speaking from the table in front of you.

Speaking for most of the Asian community and, in fact, for many people, I think, not only in the Asian community, have some perception that I have in respect to the Government's Small Business Program. And that is that regardless of the more specific built-in aid such as basic help and gaining financial support, business training and set-aside programs, and so forth, it is essential that the SBA devote some funds and use of the Government's private sector and the simplified, understandable, attractive trimmer or guidebook or some form that some of the new immigrants, some of the people—even college educated will get into that in a minute—and steer new perspective applicants and those that need help to get started in their own business.

My personal overall perception of the Government's efforts in this area is that there is something missing in just publicizing that there is an SBA Program, an 8(a) Program, and so forth. And the information provided as to how to go about participating.

If you get past the hurdle saying, "I want to make use of the Small Business Administration or State Minority Business Programs" and everything else, the minute you say you're going to do that, the perception is that you get a whole flock of fine print and things that put you into a very hostile or threatening environment. People, in my opinion, in general, are not looking for a handout from the SBA Program, but I'm afraid the approach and attitude is one of turn-off and conservatism. We want to take and say we will help you, but there's a lot of things that you're going to have to worry about and it's a turnoff. I've gone through this myself. I've been through the SBA Program.

Conservatism; to those people with a simple American dream, to own their own business and let their own energy and hard work carry them to a successful fulfillment. Simple dreams should not be dashed by complicated processes. Many are stultified not by funds, maybe they have saved their money and are ready to go into business, but lack the effort. The multitude of things; incorporation process, license requirements, taxation laws, zoning regulations, bank loan applications and environmental registration, insurance coverage, SOMBWA certification, projected financial statements, bond requirements and on and on and on. No one is requesting that any of this should be bypassed or is not necessary. But for the new visitor on a street, he needs help. He needs a directory. He needs a map, and he needs these things written in a language that he is most fluent in. And in terms that do not require a business degree at Harvard, master's degree or a law degree to comprehend. I have a master's degree in chemical engineering, and I tried to get into the SBA Program—I got into the SBA Program and believe me, that didn't help. I don't understand enough of the fine print, and so forth.

While the small business person is developing a nurturing goal, he or she should have available, a free or at least a low-cost guidebook or video tape, whatever you want to do, that he or she can read or listen to or watch, study in his or her own privacy as to the steps necessary to go into business in this great country. Don't ask somebody that's right now working in a restaurant and is dreaming to own his own business and maybe start up a food handling service or something like that, to attend Roxbury Community College at this point. He's not ready. He doesn't have the language comprehension, maybe, but something that he can do on his own, and if he is willing to cut-the-mustard in putting out his own effort then he can do something about it and then enroll. It is not just as simple as it was. They made—I'll bet you 90 percent of the people here are beyond that point. I'm speaking about the people that are at the beginning— starting out. Don't talk to them about 8(a) but let them know that there is 8(a). Let them know that there is a process, simply, so that they can at least envision that. The proposed guide should not only explain the watchouts, hazards and obligations of the difficult road to success but also clear-cut helpful encouragement as to who and what can help overcome the problems in the future, as the dreamer moves out of the visionary phase into action.

The roadmap I am advocating should take a small business traveler to spots along the way as to the degree of success to be achieved. A lot of people get out there and what happens? This information that I received concerning the set-aside program, I think some member may have gone too far to—for them to handle. And then, maybe they should have had some checkpoints along here. If you want to make $1 million, this is where you go. If you want to be competitive to IBM and Polaroid, this is what you have to do, and these are the things that you have to watch out for. Maybe the unfortunate case resulting from a set-aside issue that had happened, could be reduced if the persons had their gameplans better developed doing the simple, uncomplicated and less busy time when they were starting out, before they get caught up in the tough area and arena of high finance, expansion, acquisitions, and stiff competition.

Thank you, Senator Kerry, for your attention, and I hope I have not strayed too far on the issues and concerns.

Senator KERRY. I think you've been right on target.

Do you want to follow that?

Mr. DENNIS. That's pretty tough, especially seeing that I am a Harvard MBA.

I certainly do concur with Davis' testimony, because we do deal with a lot of small business people and certainly have a problem.

I was mentioning to him earlier that there is a very good guide that the SBA participated with the AICPA in issuing about 4 or 5 years ago, and I use it an awful lot in training seminars. But it's only written in English and Spanish. So his point of being written in the native language is very, very important. It's a very good guide, but it's only in two different languages. So, certainly, people in the Asian community would not find that guide very helpful. But there is good information available. I mean, you ought to look at the languages that these guides are written in, to see if they can be written in more languages.

I won't take up too much time this morning, because I have presented or will present written testimony.

Basically for the record, and I would like it entered into the record.

Senator KERRY. It will be.

Mr. DENNIS. But, what I would like to talk about is a couple of bills that are currently being discussed in Congress right now and somewhat discussed very well by Al Daniels to a certain point, he certainly has quite a grasp in dealing with these bills much more extensively than I do. But, I would like to talk a little bit about them.

On Congressman Mavroules' bill, I certainly would be in favor of this bill, especially in the participation terms. It's a fixed-term participation. We have 5 years right now and 2 years extension. There's not a lot of transitional work that's going on. I think many of us have been talking about that. Many of us are concerned about companies that have graduated, and there should be some transition work done. I think the Mavroules bill looks at this, and I think it takes a pretty good first cut at it. And I would be in favor of that bill and especially that section of the bill. In House bill H.R. 748, the private sector bill, and I hope I'm getting these bill numbers right. There have been many bills in the past that deal with subcontracting with the major firms and minority firms. And these really have not worked. One of the major bills that came out to cause the large companies to subcontract was P.L. 95-507. The problem with that, there's no teeth in the bills in terms of penalties for non-compliance. There was not enough staff for SBA or other parties to monitor this. And so, as someone said, it is kind of a joke. You have the law, but it's not being enforced. And I sometimes—I think we're all good Americans, but I think some of our corporate citizens are not obeying the law, and this is a law and should be obeyed. Perhaps it needs to be monitored. Perhaps it needs to be enforced. I do think that there's another bill coming out on the street dealing with private sector subcontracting. There ought to be some monitoring, some penalties in that law to deal with noncompliance.

On S. 99-661, which is, I believe the number for the Department of Defense 5 percent set-aside, there are many concerns. I've been getting some telephone calls from around the country from people who are presently in the 8(a) Program. There's some concern that this bill might be a harmful bill if, in fact, that winds up being a substitute for the 8(a) set-aside as opposed to an addition to it. So, I think it ought to be very clear that the bill should not be a substitute but an addition to the 8(a) requirements. And I think I'll just take that much time to comment on those bills.

[The prepared statement of Mr. Dennis follows:]

Testimony of Daniel Dennis Sr., CPA
SBA-8-A Field Hearing
Roxbury Community College

September 2, 1987

Senator Kerry, I appreciate the opportunity to present this written testimony to become a part of the written record of this hearing.

I am a partner in a Certified Public Accounting firm that is 8(a) certified. We have been in the 8(a) program for approximately five years. I have found the program to be very beneficial to our firm. Currently about 15% of our business is 8(a) generated. We do expect this percentage to increase over the next year or two because it takes a certain amount of time to learn how to use the program effectively. We are keenly aware of the fixed participation period and the extension provision of the program. Upon graduation, we would hope to have achieved the following objectives:

A) Develop a strong financial position for the company

B) Establish lasting banking relationships with the banking community

C) Develop a strong management team

D) Gain a better understanding of the federal market with the intention of being able to transfer the expertise that we have developed in the 8(a) program to the competitive federal market

E) Penetrate the commercial market so that it will be a viable replacement to the federal market.

I am very confident that we will be able to achieve the first three objectives, but I am not so confident about the last two objectives.

Many firms have found that it is difficult to become competitive on work that they have been performing as 8(a) contractors, because that work does not leave the 8(a) environment when they graduate. Hence, it is not available to bid on. What happens is that the 8(a) graduate firm is back at square one, bidding on work that may be similar to work they did as an 8(a) contractor, but now the firm will be a first time bidder with all the accompanying disadvantages of a first time bidder to be faced.

The commercial market, especially large corporations, tends to be greatly influenced by what the federal government is doing, or is requiring of the corporations. It is possible to perform work in this market, but generally the scope of work will be limited and hence the income from this sector will be far less than what the 8(a) firm had earned in the federal market.

Therefore, 8a firms have to be very concerned about life after 8(a).

I think that the 8(a) program should have a transitional period beyond the actual period that a firm is in the program.

I believe that this transitional period should concentrate on the marketing or contracting needs of the graduated company. Some areas to look into could be the following:

A) Transfer of actual 8(a) contracts to the competitive environment (for the graduated 8(a) firms only)

B) Multiple year contracts that would go beyond the graduation date

C) Technical assistance in identifying program managers, contract officers and users of similar services

D) S~~enio~~emir-competitive awards for 8(a) firms only, for a limited number of years after graduation.

I would also like to take this opportunity to comment on some pending legislation that will affect the 8(a) program.

H.R. 1807 - sponsored by Rep. Mavroules:

I think that this legislation would be good for the program. I especially think that the section on term of participation addresses the need for a transitional period after graduation and I strongly endorse it. I also feel that the criminal penalty for abuses should be increased and strongly enforced.

H.R. 2269 - sponsored by Rep. Conte:

In general, I feel that this legislation will water down the overall impact of the 8(a) program. To certify all firms owned by minorities may increase the opportunities for abuses unless SBA has the staff to insure that the applicants are in fact minorities and not fronting operations.

The overall impact would be to increase the number of firms participating in the program, however, this participation will not be meaningful unless the contract opportunities grow in proportion to the increase of participants in the program.

H.R. 1748 - Private Sector Subcontractors:

The problem with all legislation calling for the private sector to subcontract with minority businesses, is that there have been no effective penalties or monitoring of subcontract provisions. If this bill is to be effective, it must have a strong enough penalty provision to make it very costly for the majority Companies to ignore this provision. In fact the bottom line test should be how much in contract funds were actually subcontracted, as opposed to a "best effort" clause. "Best effort" is a thing of the past. Minority firms can and will perform on subcontracts if given the opportunity.

In addition, SBA or some other government agency should be given the staff and the legal ability to monitor and enforce these provisions.

Senate bill 99,661 5% DOD set aside

I believe that it should be made crystal clear that this requirement is above and beyond the 8(a) requirement and not a substitute for the 8(a) set aside requirement. If not, this bill will not be helpful, but may be harmful to firms presently in the 8(a) program.

Other Programs in the SBA

I would also like to be on record in favor of other programs such as the loan guarantee and 7(j) technical assistance programs of the SBA. I feel that the loan guarantee program is essential for financing of a new business, because banks are unwilling to undertake this risk.

In addition, I believe that new companies need professional assistance in various areas of management and I believe the 7(j) program can effectively aid a small business with these areas of expertise at a time when they may not be able to afford to hire professionals on their own. Not only do they get the services of the professional, but they can begin to appreciate how professionals can aid them with the development of their business in areas where they may not have the necessary in-house expertise.

Senator **Kerry**. Jose, do you want to sum up a little?

Mr. **Perez**. First of all, I would like to thank Senator Kerry for having this hearing on the 8(a) Program and also to his commitment to the minority community. Also, to his commitment to the minority community across the Commonwealth and working with the business community across the Commonwealth, one of their chief advocates and a name that always comes up is Senator Kerry. And I wanted to thank him and also encourage him to continue to support us in the way that he has.

Second, what I would like to say is that here in the State of Massachusetts, one of the things that I've learned from the 2 years that I've been in this position is the key to support from the chief executive. In this State we've had a tremendous amount of numbers of problems in the Minority Business Program. But one of the things that has come through, across to all the secretaries, has been the commitment that the Governor has in making sure that the minority business development moves forward and that we begin to develop strategies that deal with minority business development. There's a thing at this hearing that needs to be said, is that the reason that we in Government and policymakers in the public sector are dealing with minority business development, is that we are talking about development of the minority community. If it wasn't for those communities where we come from, there wouldn't be minority business development. Our areas do not do as well economically. We go to Roxbury here in Boston, or the Brightwood area of Springfield or Lawrence, and you begin to look at how the blacks, Hispanics and Asians live, there is a tremendous amount of economic development that we need to do in those areas. In our society, which is a capitalist society, the way that most newcomers and immigrants and people who have made it have been through the development of strong business community and of a strong economy in those areas. The reason that we're up here and I'm up here in the forefront fighting, is to begin to bring back resources to our community to deal with the issue of jobs, unemployment, housing and education and those things. Therefore, any development strategy across the country has to begin to look at why we're doing this. We're doing that to bring resources to a segment of our population it hasn't been involved. And with that, I think we cannot lose that in terms of where we're at and where we're going.

What I would like to say is that there needs to be close coordination in working between the State and Federal governments. In the past 6 years that I've been involved in, there's been a total destination of programs that are designed to assist the minority community and the resources have been tremendously reduced at a time when they were most needed in terms of business development strategies. A lot of it is not just dollar issues, but also a commitment from the top down to the minority business community ahead.

I say all of that, to say that here in the State of Massachusetts, we are now—we've now implemented a number of various strategies. One of those is equity participation by minority developers and development deals. I think that's something that the Federal Government could also look at by using HUD, UDAC, and so forth. We're also looking at the issue of creating a—we have a minority business commission to get input because—again, I don't run a day-to-day business, an entrepreneur does. But, what we've done in this State is pull approximately 36 businesses from across the State to begin to tell us where are we falling short? What are our shortfalls? More to that, he's the vice chairman of that commission. Fletcher Wiley is the chair of that commission and many people in this room sit on that. And the purpose of that is to hold me accountable and hold the Governor accountable to making sure that whatever strategies we put forth respond at the State level to the needs of our minority constituency and our minority business community.

Last, what I will say is that I have a commitment to work with the Senator; work with the SBA; work with everyone to make sure that whatever legislation comes forth is more responsive. I think today we've heard comments from everyone, and you, better than I, have said what the downfalls and the pitfalls and also what are some of the benefits of the 8(a) Program.

But, I think that one of the things I want to make sure comes out of here, this is not an adversary relationship between the State and democrats and republicans, because we don't have minority—we have minority businesses that need help, not democratic and republican businesses. And there is a commitment on our part to move whatever resources forth to work both with the Federal bureaucracy and the State bureaucracy in the good services of the Senator and the Federal and State legislature to move forward on minority businesses.

I'll move forward. Ken alluded to our approach in terms of data collection and one of the things that the State is looking at is a major data-collection effort, because one of the problems that we do have across-the-board is that there is not finite good information on minority businesses and how we're doing. So that their point is not milestones by which we can measure how much progress is being made from year to year. And I don't want to get into that, but if people want to move in that direction, I can coin some of the technical quotes that begin to look at the data-collection efforts.

Senator KERRY. Thank you very much for that. Ron.

Mr. HOMER. My name is Ronald Homer, and I'm the president of Boston Bank & Commerce. New England's only black-owned commercial bank. I'm also a past president and current board member of the National Banker's Association, a 60-year-old trade association network representing this Nation's minority-owned banks.

So on behalf of the banking industry in general and my minority banking industry in particular, I would like to welcome this hearing to Boston, to Roxbury, and applaud Senator Kerry's efforts to strengthen the existing programs in support of minority business development.

Small independently-owned and operated business establishments form the backbone of our economy. There are more than 13 million non-formed businesses in this country and 98 percent of them have fewer than 15 employees. These businesses provide jobs for more than half the U.S. workforce and they generate almost half of this country's national product. Not only are small businesses vital to our national economy, but they are essential to the economic well-being of each and every community. Small businesses form an important part of any bank's customer base. Partnership between banks and small businesses are mutually beneficial. Small business loans comprise the largest portion of most bank's loan portfolio. These loans represent from 60 to 100 percent of the total amount of commercial loans that the bank makes, depending on the bank's size and location.

Banks share another bond with small businesses. The vast majority of banks in this country are, themselves, small businesses. The future of any bank is tied to the financial help of the community it serves. So banks have a strong interest in contributing to the stability of their communities by serving the financial need of small businesses.

A successful 8(a) Program is essential to the development of the minority business community and the minority community at large. The contracts that minority firms receive from this program are a key to their attracting capital so that the businesses can start and survive and enabling these firms to establish themselves in a proper place and develop their expertise in order to keep with the national economy. Therefore, I urge this Committee to find a way to preserve this program and to expand it and to make sure that companies participate for a duration sufficient so that the assets that are absorbed by these businesses, that the contracts are long enough to reach a depreciable life of those assets. That's an essential part of the program which enables us to attract capital.

I would also like to point out to the Committee that banks and, in particular, minority banks or small banks in general, are not included in any regulation or legislation regarding minority business development. As a matter of fact, minority banks, although small businesses by almost every definition, by regulation, have been excluded from participation in both the P.L. 95-507 program and the 8(a) Set-Aside Program and the 7(j) institutions or any other participation.

I do not believe that you can build a strong business sector without a small banking system sector. Therefore, I urge that in looking at this program that there be developed a means of including minority banking networks into the 8(a) Program and into existing SBA programs.

Thank you.

Senator KERRY. Thank you very much. John Womack.

Mr. WOMACK. My name is John Womack, and I'm president of JJS Services located in Peabody, MA, also president of Black Corp. Presidents. I too would like to thank Senator Kerry and the Small Business Subcommittee for coming to Boston and listening to our views and concerns of the business community here in the Boston area.

Senator Kerry introduced me and said that we were a graduate of the 8(a) Program. We are not a graduate of the 8(a) program, although many contracting officers wish we were. So I would like to point out that we're not a graduate. We are due to graduate in September 1988.

I would just like to say on a personal note in our company that we are very pleased and happy that there has been such a program as the 8(a) Program that has helped us through the years of our involvement as a business person. Without the 8(a) Program, I can't say exactly where we would be, perhaps doing maybe half of what we are presently doing. However, I feel that there's a lot that can happen to enhance the 8(a) Program that could have helped us to be further along, and I think I know what would help many other companies to be further ahead in the minority business community as a whole at this time. So the many views that have been talked about and many concerns that set the stage here today, I hope will be followed-up on, because most of them are essential if we are to continue to strive in the minority community to be a business that can survive not only today but tomorrow.

On the other side of the hat that I wear in terms of president of Black Corp. Presidents, we are greatly concerned about the 8(a) Program and the future of the 8(a) Program because we are concerned about the future of minority business. I think we as black corporate presidents want to be the kind of organization that can bring in new entrepreneurs and be able to assist them and to help them and show them some of the things that we have done wrong and some of the shortcuts and ways that they can get a headstart.

We appreciate Mr. Harris, Dr. Edison, other small business groups, SBA, and all those different organizations that are there to help us, but we believe that we have a group of people who have experienced the real world of business in terms of getting into it and seeing the ups and downs and burning the midnight oil and working a 24-hour day to know what has to happen. So we feel that we are an organization that can help many of the young people coming in to be able to show them and talk with them about what they have to do in order to be able to survive in this World out here.

So we're hoping that somewhere along the line that maybe there are some grants available that will be able to come in to assist us as a black corporation, because we've gone on our own to hire an executive director to do many of the things that we want done. With us being in the business world every day, we cannot take time from our business to go out and help and assist people on a regular basis, but collectively we can always come together as people who have the experience and sit down with different candidates as our executive director brings them forward and be able to assist them in many ways.

So I would like to look at that part of it, and hope we are able to help in many different ways in the future.

On just a little different note, as we talk about many of the Harvard graduates, and so forth, and the main thing that perhaps one needs to be able to qualify for certain things, I sit on the other side of the table with no degree, and I would like to point out that there are many of us who don't have those degrees who have that strong desire to own a business. So I ask that we do not make that so complicated that people with basic common sense can't live in this World to survive as business people.

Senator KERRY. It's obvious that you are wise, indeed, because you knew how to handle an applause.

Let me—we never do that in this business. We're always looking for the next one, you know.

I want to thank everybody. I think this has been very, very helpful, certainly for me, and I'm sure that the staff folks who have been acknowledged here also have found this very, very helpful and I hope that, John, you found it helpful and I think it has been helpful.

I think we can agree on a number of things coming out of this.

This program has been through its stops and starts and upheavels and it obviously had had some problems. But I don't think anybody—and I think the testimony here is going to be very important to helping people understand how this program has served the businesses. It has helped people to do better. It's helped people to exist, and it would be a tragedy if we allowed—whether it's Wedtech or other things that are happening—to do anything except spur us on to try to make it better and to improve it.

And I think the testimony we've heard here today is going to be helpful in evaluating and helping that to happen.

Second, I think we've had some very good, sound sensible recommendations based on practitioners, and I was pleased to hear people come in here who are participants, articulate the needs in terms that I think fit into the fundamental concept of what we are in the country and the kind of economic system that we have, and how we're trying to create independence, not dependence, and how this program could, in fact, use some competitiveness and how that may help people to foster that kind of independence. I think it's good to have that kind of practical thinking and sort of honest approach to it, and I think it's going to be very helpful to us as we evaluate where we go from here.

And finally, I think that we have been able to underscore here, disparities which continue to exist and which shouldn't in a society that is as wealthy and doing as well as we are particularly here in Massachusetts. And it is not meant to be done—as I said earlier—in any way that points fingers. It's meant to be done in a way that helps us to reaffirm and recommit ourselves to the kind of energy and input that's necessary to improve a program like this and make certain that we are, indeed, helping a lot of other folks have access to it and be able to do the things that they need to do.

So I want to thank the folks in the administration, the Governor's administration who have come here to help share with us some thoughts about what they are doing, and I'm particularly grateful to John and the administration for listening carefully, as I know he has here. And I look forward to working with him and them, in the effort to produce something that is constructive and sensible in the context of where we are today.

Finally, again, I reiterate my thanks to Senator Weicker, Senator Bumpers, and their staff for taking the time to be here. They are essential to this process. Their staffs will be the key people writing this, together working with Jim Brenner and my staff, and we look forward to working with them and making this hearing a little bit more than just words, but realities.

Thank you all very much for being here. I appreciate it.

[Whereupon, the hearing was adjourned at 12 noon.]

○